Research

CRISIL
An S&P Global Company

225 companies analysed, scored

Data the weakest link in ESG integration

ESG seen critical to fund-raising

ESGauge

CRISIL ESG compendium

June 2021

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Foreword

The Covid-19 pandemic has amplified calls for embracing sustainability and made a compelling case for corporates, lenders, investors and policymakers the world over to consider environmental, social and governance (ESG) factors in their decisions.

ESG has rapidly taken root in India as well, and can only grow from here, our survey of 100 market participants reveals. This report captures the findings of the survey and also the ESG scores for 225 companies across 18 sectors in India, based on our proprietary ESG assessment framework.

Powered by our strong sectoral research capabilities and rich databases, the CRISIL ESG score factors in the track record of, and trends and disclosures by, companies to provide a relative, pan-sectoral assessment on all material ESG parameters relevant in the Indian context. It is based on information available in public domain, including from third-party providers.

The score is assigned on a scale of 1-100, with 100 denoting the best-in-class ESG performance. The current evaluation analyses three annual reporting cycles through fiscal 2020.

Among the survey findings, we see that an overwhelming proportion (~80%) of institutional investors intend to integrate ESG in their decision-making. This will not only transform the investment management industry, but also redefine corporate India's approach to risk management for sustainable value creation.

Our analysis of the ESG scores show, information technology (IT) and financial companies have relatively high overall ESG scores given their inherently lower natural-resource intensity, resulting in lower emission, waste generation and water usage, but high employment generation.

At the other end, oil and gas, chemicals, metals and mining, and cement companies have lower ESG scores, reflecting higher resource intensity and emissions levels, extractive use of natural resources, potential adverse environmental and community impact and, in general, more moderate levels of disclosures.

From an environmental perspective, use of renewables is an important assessment parameter. Interestingly, the average share of renewables in energy consumption remains low at ~14%, whereas that for real estate, fast-moving consumer goods and IT sectors is, encouragingly, more than 25%.

Gender diversity at the Board level and in the workforce of companies assessed remains low at 17% and 13%, respectively. Independent director representation on Boards, a tenet of corporate governance crucial for protecting the interests of all stakeholders, is also modest at 47%

All this and more, in this first edition of ESG Gauge.

I hope you find the insights interesting and useful.

Best wishes,

Ashu Suyash
Managing Director & CEO
CRISIL Ltd

Contents

Factoids

Top global risks by likelihood

Rank	
1	Extreme weather
2	Climate action failure
3	Human environmental damage
4	Infectious disease
5	Biodiversity loss
6	Digital power concentration
7	Digital inequality

Source: The Global Risks Report 2021 of the World Economic Forum

Rs 10,473 crore
($1.4 billion)

AUM of the 10 ESG funds in India as on March 31, 2021

$28 billion

International socially responsible investment (SRI) funds' allocation to India (2019)

$37.8 trillion

Global ESG assets as of March 2021

Female investors are almost twice as likely than male investors to consider both returns and positive impact when deciding on investments

-Morgan Stanley Institute for Sustainable Investing, 'Sustainable Signals: The Individual Investor Perspective,' 2015

$37 trillion

AUM committed to supporting the goal of net zero greenhouse gas emissions (GHG) by 2050 or sooner

63 to 4,000

In 2006, when the United Nations Principles for Responsible Investing (UN PRI) was initiated, there were 63 signatories with assets under management (AUM) of $6 trillion. As of May 2021, there were 4,000 with AUM of $110 trillion

$53 trillion

Estimate of ESG assets globally by 2025, or more than a third of the expected $141 trillion of global AUM by then

4,524

Number of global sustainable funds as of the first quarter of 2021

Factoids

$11 trillion

ESG debt market size expected by 2025, compared with $2.2 trillion now, assuming it expands at half the pace of the past five years

70%

Percentage of academic studies on ESG that find a positive relationship between ESG scores on the one hand and financial returns on the other, whether measured by equity returns or profitability or valuation multiples, as per McKinsey

1-2 years

CRISIL expects global convergence of ESG reporting standards in a year or two, with the International Financial Reporting Standards (IFRS) Foundation's framework likely to emerge as the global baseline

45

A CRISIL study shows baseline convergence of ESG reporting standards will likely provide access to 45 sustainability key performance indicators

Timeline

- **1971**: First sustainable mutual fund launched by Pax World to avoid investing in companies involved in the Vietnam war
- **1990**: Domini 400 Social Index launched. Now called the MSCI KLD Social Index, it is the first capitalisation-weighted index built to track sustainable investments
- **1997**: Kyoto Protocol convenes, world leaders set goals to address global warming
- **2000**: UN Global Compact launched. The Global Reporting Initiative (GRI) provides companies with international independent standards for reporting on impact
- **2006**: UN PRI launched. First mention of ESG issues in the Freshfield Report and 'Who Cares Wins'
- **2009**: Global Impact Investing Network launched
- **2015**: Paris Agreement drafted
- **2016**: CalPERS adopts a five-year plan to incorporate ESG principles into its investment process
- **2018**: Larry Fink, the Chairman and CEO of BlackRock, the world's largest asset manager, starts writing letters to CEOs asking them to focus on ESG
- **2019**: Nearly 500 actively managed funds in the US add ESG criteria to their prospectuses
- **2020**: Global sustainable funds soar to a record $1.65 trillion, thanks to a 29% rise in the October-December quarter
- **2021**: Global sustainable funds attract $185.3 billion in the first quarter, up 17% sequentially. The European Union (EU) and the United States (US)account for 79.2% and 11.5% of the flows, respectively

Sources: CRISIL, World Economic Forum, McKinsey, Bloomberg, Morningstar

Why ESG counts

In a matter of a decade, environmental, social and governance, or ESG, factors have cut through from the periphery to the nub of investment decisions across the globe.

At the core of ESG-based investing is a rising recognition that companies do not function in a vacuum. They take from the environment around, the people they employ, and affect lives beyond those they directly serve.

The very functioning of a firm, so far measured in terms of financial metrics, thus impacts both the sustainability of the business, and the society it exists in.

It is, therefore, inevitable that a company's sustainable, responsible and ethical practices are evaluated just the same as its financial performance.

Investors are paying attention to this and ESG has become an imperative for all to follow.

On their part, a growing number of companies have started including ESG-related information in their annual disclosures and are trying to gauge their exposure to ESG risks. ESG has become simply too big to be ignored.

The three rubrics

The Covid-19 pandemic and, before that, the 2008 global financial crisis are wake-up calls as to how challenging, yet important, it is to build risk-resilient businesses. In the context, old systems of assessment and styles of investment are begging for an overhaul.

Integrating ESG factors into the financial world is one way to do this. That would serve to reduce the individual firm's vulnerability to global sustainability-related shocks and strengthen the economy as a whole.

While 'E', 'S' and 'G' are seen as distinct pillars, they are also related, and likely to overlap when organisations try to comply with any one of them.

Each ESG element further comprises sub-parameters that help assess a company's performance:

- The *E factor* includes, but is not limited to, a company's contribution to climate change through waste generation and management, water utilisation, energy efficiency, negative environmental impact and any efforts to reduce pollution and carbon emissions, assessed on data provided in the company's environmental disclosures
- *The S factor* includes workplace mentality, such as diversity, management, ecosystem, supply chain (vendor and customer), human rights, and any relationship with the larger community through corporate citizenship and philanthropy
- *The G factor* stands for the rights and responsibilities of the company and its Board of Directors, and expectations of stakeholders such as shareholders, debtholders, minority shareholders, employees, customers and the management of a company. It focuses on shareholder rights and relations, management track record, and Board independence and functioning

The ESG assessment spectrum

Environmental

- Water use
- Resource use and biodiversity
- Waste generation and recycling
- Energy and emissions

Social

- Employee management
- Supply chain management
- Communities
- Customers

Governance

- Board composition
- Board independence
- Functioning and experience
- Management track record and control
- Disclosures and shareholder relations
- Compliance/controversy checks

Risk and reward, the two sides

The rise of ESG – first mentioned in the UN PRI 2006 Freshfields report (as distinct from SRI, which was around much longer) – can be seen as a natural outcome of the changing society we live in, that is challenging corporations to adopt responsible investing as an integral part of their investment decisions.

Ten years ago, the top global risks in terms of impact included only one ESG risk. Today, ESG risks account for four of the top five risks, according to the 2021 World Economic Forum's Global Risks Report[1].

But ESG opens up opportunities, too.

A recent report of the Organisation for Economic Co-operation and Development (OECD)[2] states that ESG investing can, under certain conditions, help improve risk management and lead to returns that are either equivalent or superior to those from traditional financial investments.

It finds growing societal attention to climate change risks, benefits of globally accepted standards of responsible business conduct, and need for diversity in the workplace and on Boards suggestive of societal values increasingly influencing investor and consumer choices.

That, in turn, would progressively impact corporate performance. Corporations and financial institutions are also showing momentum away from short-term perspectives of risks and returns towards longer-term sustainability in investment performance.

So the question has shifted from 'should we consider ESG?' to 'how do we actively and materially pursue adoption and better implementation of ESG practices?'

The writing on the wall is, corporations that continue to ignore their negative impact on environment and society, are not on top of ESG risks, are poorly governed, or remain unaware of ESG-related opportunities are likely to be prone to higher risks, will find the operating environment challenging and lose out on capital in the foreseeable future.

ESG's value proposition

Conversely, paying heed to ESG concerns helps in value creation for a corporate. As the following chart shows, it nurtures topline growth by efficient use of resources, enhances public image and attractiveness to investors, and increases its ability to raise capital at lower costs. Integration of ESG into business leads to long-term sustainability of both, the environment and of the business itself, and can become a force of good for the society.

[1]*https://www.weforum.org/reports/the-global-risks-report-2021*
[2]*https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf*

More revenue opportunities

Lower risk

Enhanced public image

Betterment of society and environment

Long-term sustainability

Reduced regulatory issues

Academic research published on UN PRI's website states that investment in non-ESG companies could bear up to 28% more risk annually compared with ESG-integrated companies in the same industries. Hence, the incorporation of ESG factors could lead to lower volatility in a company's shares, thereby mitigating potential risks.

Just the same, as ESG is believed to have a positive relationship with financial performance of a company, negative ESG-related news tends to induce a significant fall in stock returns in the short term.

Research from Société Générale found that two-thirds of companies hit by a major ESG controversy saw their stock price underperform the MSCI World Index by an average 12%. Over the years, environmental incidents such as oil spills, emissions scandals and corporate governance-related issues have brought companies' operations in the limelight and resulted in negative impact on share price. Activist investors are also getting more vocal about companies' carbon footprint and growth plans.

India has also seen ESG issues being raised at annual general meetings. Minority shareholders are voting more actively on issues such as compensation, performance-based remuneration, related party transactions and payment of royalty to parent companies.

[3] *How ESG investing affects financial performance | Academic research | PRI (unpri.org)*

The great strides of ESG globally

Several developments point to the rise of ESG to the centre of investment and lending decisions globally.

One, the number of sustainable funds and the amount of investment have grown manifold.

Two, various international standards and frameworks for the adoption of ESG, responsible investing and comprehensive reporting have shot into prominence in the past decade.

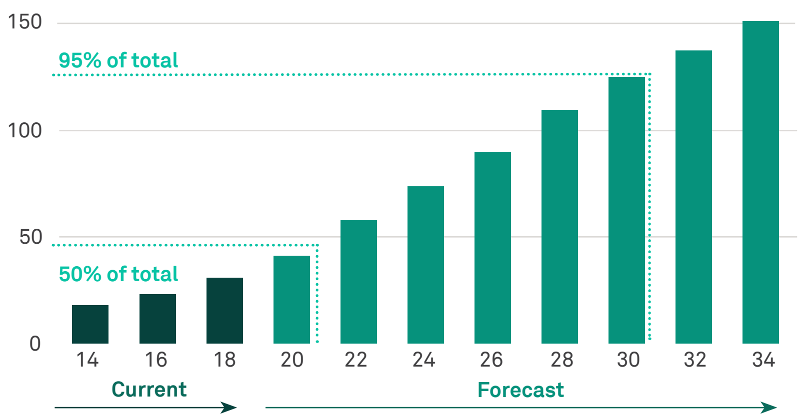
Three, global leaders have joined hands to combat climate change and social inequity and reduce global emissions (as laid out in the Paris Agreement). This is evidenced by the work regulators are doing on ESG regulations, taxonomies and strengthening resilience in the financial system with the help of central banks.

Last but not least, ESG has reached a tipping point with the pandemic.

New frontiers in ESG

It is raining sustainable investments

Globally, ESG funds captured $51.1 billion of net new money from investors in 2020 and total ESG assets amounted to $37.8 trillion at the end of March 2021. Over $100 billion flowed into specialist ESG funds globally between 2018 and 2020[4]. ESG investments are expected to surpass $100 trillion by 2030, according to a forecast published by Deutsche Bank in September 2019. Asia (excluding Japan) also saw relatively modest net inflows of $7.9 billion in sustainable funds in 2020, up from $810 million in 2019.



Source: Deutsche Bank, Global Sustainable Investment Alliance, zeb research

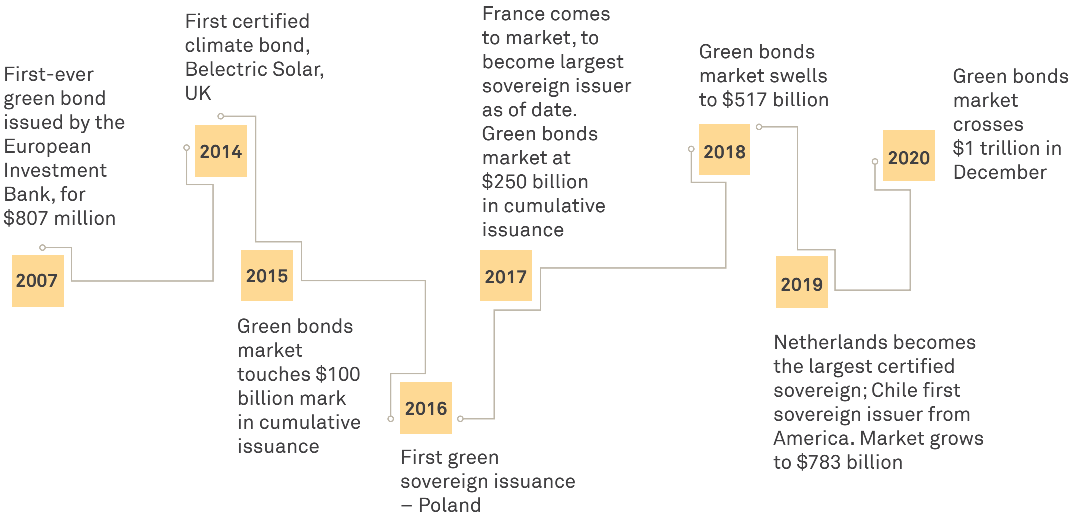
[4]*Source: Emerging Portfolio Fund Research, Barclays Research*

Another indicator is the number of PRI signatories. It rose ~27% between 2006 and 2020, recently reaching 4,000, representing more than $110 trillion AUM. Half the growth in 2020 came from emerging markets. This suggests increasing awareness about considering ESG factors in financial decision-making, including in emerging markets.

Green bonds surpass $1 trillion

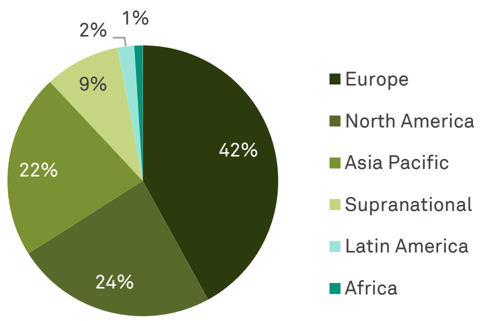
Green bonds are fixed income instruments that are specifically issued to raise money for climate and environmental projects, especially aimed at energy efficiency, pollution prevention, sustainable agriculture, fishery and forestry, protection of aquatic and terrestrial ecosystems, clean transportation, clean water, and sustainable water management. While they had a tepid start when initiated in 2007, demand for these bonds rose sharply after 2016 and surpassed $1 trillion at the end of 2020.

Green bonds milestones

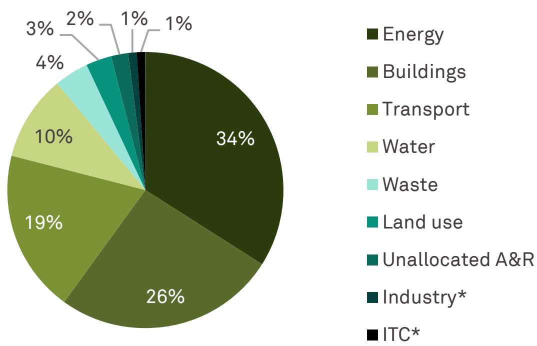


Source: Climate Bonds Initiative

Region-wise breakup of green bonds



Use of money raised from green bonds



**<1%; ITC – information technology and communication*
Source: Climate Bonds Initiative 2020

Meanwhile, a break-up of usage of money raised shows that the energy sector comprised the largest component of green bonds, at $355 billion, followed by low-carbon buildings, with $263 billion utilised, and transport in the third place, with $191 billion issued.

ESG frameworks increase in number; but multiplicity proves onerous

Increased stakeholder demand for consistent, thorough and granular disclosures of information for responsible investing has spawned multiple frameworks across the world in the recent years, the major ones being:

Reporting initiatives

Environmental initiatives

Social initiatives

However, multiplicity of reporting frameworks is proving to be onerous for companies.

Recognising this, and the need for standardised and streamlined ESG reporting, leading organisations such as CDP, GRI and Sustainability Accounting Standards Board (SASB), have announced their decision to work together since September 2020. Further, the trustees of the IFRS Foundation issued a consultation paper proposing the establishment of a new climate risk-focused Sustainability Standards Board (SSB) and based on the responses IFRS launched a working group including other sustainability and standards-focused organisations. The board would be based on existing frameworks and standards, to enable a single global reporting standard, with an initial focus on climate change issues.

Taxonomy becoming a focal point for regulators

Alongside the rising demand from investors and interest from corporates, regulators in Europe, China, Canada and many other countries are increasingly focusing on sustainability taxonomies. These are aimed at helping investors understand whether an economic activity is sustainable, by developing common ground between investors, issuers, promoters and policy makers.

A taxonomy for each country

Taxonomy available	EU	China	Bangladesh	Mongolia	Vietnam	Morocco	Brazil	Climate Bonds Initiative
Taxonomy under development	Canada	Indonesia	Mexico	Colombia	Peru	Malaysia	New Zealand	

Source: International Finance Corporation

ESG has entered policy parlance of top economies

About 50 of the leading economies today have policies in place to drive sustainable investments.

The EU, Canada, the US, Israel and many others are bringing out regulations specially on sustainable finance disclosures.

These regulations[5] support national policy goals on climate change and the UN's sustainable development goals (SDGs), enhance resilience and stability of the financial system and the economy, improve market efficiency by clarifying and aligning investor and company expectations, and increase the attractiveness of countries as investment destinations.

[5]*https://www.unpri.org/policy/regulation-database*

Central banks and supervisors commit to ESG

A growing number of central banks and supervisors have also committed to support climate-related financial disclosure reporting, with a consensus that climate change forms an essential part of financial risk and should be addressed by central bankers globally.

The establishment of the Central Banks and Financial Supervisors Network for Greening the Financial System (NGFS) is one such example. NGFS is a network of 83 central banks around the world that aims to accelerate the scaling up of green finance and develop recommendations for central banks' role in building a resilient and stable financial system. Climate scenario analysis against physical and transition risks is an important area of their work.

Top ESG reporting trends

Based on our analysis, the following five trends stand out.

- **Company-specific disclosures:** Generic metrics are passé. Investors want to see companies consider the specific impact of sustainability risks on their businesses and vice versa. The focus is now on company-specific, decision-relevant information with science based targets
- **Materiality:** While the 'alphabet soup' of disclosure frameworks is becoming difficult to navigate, investors are increasingly gravitating to frameworks that emphasise materiality. The Task Force on Climate-related Financial Disclosures (TCFD) and SASB frameworks are preferred, especially by many of the large institutions. The GRI and integrated reporting (IR) frameworks are already being used by most of the large companies
- **Scope 3 emissions and the focus on supply chain:** There will be more demand from organisations to report on their Scope 3 emissions as well as supply chain impact data. These two data points have been largely missing from companies' disclosures
- **The 'S' factor:** While efforts to improve climate disclosures are well underway, investors are now paying closer attention to how companies deal with the 'S' in ESG, particularly with the pandemic and the socio-political environment bringing social issues into sharp focus
- **Convergence:** Investors expect greater convergence and standardisation in ESG reporting frameworks to be the natural endpoint of greater integration. The recently announced merger of the SASB and IIRC is a case in point. The IFRS Foundation's proposal for the SSB has the broad approval of investors, with one caveat: the new Board should advance, rather than replace, the work of existing frameworks on convergence
- **Checks against greenwashing:** Concerns that sustainability disclosures by asset managers are not up to the mark have led to countries and regions such as the EU to introduce legislation (e.g., the Sustainable Finance Disclosure Regulation) to increase transparency in how sustainability risks and opportunities are integrated into investment decisions. The US Securities and Exchange Commission's (SEC) new ESG taskforce aims to focus on identifying any material gaps or misstatements in issuers' disclosures of climate risks under existing rules

The Indian perspective

The pace of adoption of ESG in India has accelerated in recent years, with support from the government, investors, shareholders and corporates.

Government priorities

On the environmental front, climate change, pollution and biodiversity conservation are the key challenges. The push for greater adoption of electric vehicles and renewable energy sources through incentives and subsidies, and introduction of regulations for better waste management are some of the ways the government has been trying to tackle these.

Environmental

- Government push to electrical vehicles and renewable energy resources
- Paris Agreement
- National Air Quality Index
- Waste management rules
- Pollution emission standards
- Industry effluent standards
- Discontinuation of 15-year-old vehicles

Social

- 2% corporate social responsibility (CSR) mandate
- Free education for children
- Minimum girl/woman reservation quota for gender balance in education
- Rural area development
- Affordable housing scheme
- Lower stamp duty for women home buyers

Governance

- Independent director norms
- Independent audit committee
- Women director representation
- Insolvency and Bankruptcy Code
- Whistle-blower policy
- Management remuneration norms

Government support to ESG

On the social front, the affordable housing scheme, development of rural areas (electricity, internet and telecom connectivity), free education for children, and women empowerment are some initiatives.

On the governance side, tightening norms and formation of committees such as the Kotak Committee on Corporate Governance as well as the business responsibility and sustainability report (BRSR) disclosures have helped the country adopt a more transparent and credible approach towards disclosures and management conduct.

India is the only G20 country whose actions are on track to meet the Paris Agreement goal of limiting global warming by 2^0 Celsius. India has reduced 24% of its emission intensity relative to gross domestic product (GDP) from 2005 levels – out of a target of 33-35%. In the last six years, the country has witnessed the fastest rate of growth in renewable energy capacity among large economies – its capacity increased 2.5 times (solar energy expanded over 13 times).

India's ESG evolution

The growing regulatory footprint

2007
The RBI advises commercial banks on CSR, sustainability and non-financial disclosure

2008
S&P ESG India Index

2009
Ministry of Corporate Affairs (MCA) publishes CSR guidelines

2010
Department of Public Enterprises (DPE) issues CSR guidelines for CPSEs

2011
MCA publishes National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs)

2012
SEBI mandates BRR for top 100 listed companies

BSE launches Greenex and Carbonex

2013
MSCI India ESG Leaders Index

2014
Landmark CSR law: 2% of average net profits of the preceding three years for CSR spending

2015
RBI includes social infra and renewable energy in priority sector lending (PSL) for banks

BRR mandatory for top 500 companies

SEBI Listing Obligations and Disclosure Requirements (LODR)

2016
SEBI publishes green bond guidelines

IBA publishes NVGs for Responsible Financing

2017
Kotak Committee on Corporate Governance

2018
BSE publishes Guidance Document on ESG Disclosures

Nifty 100 ESG Index

IRDA, PFRDA* mandates stewardship code

RBI includes affordable housing in PSL for banks

2019
MCA revises NVGs to align with SDGs

2020
SEBI mandates stewardship code with ESG monitoring

2021
SEBI launches BRSR

** IRDA=Insurance Regulatory and Development Authority of India; PFRDA=Pension Fund Regulatory and Development Authority*
Source: CRISIL, SBI

The emphasis on ESG reporting started with the MCA releasing the NVGs on Social, Environmental and Economic Responsibilities of Business in 2011 that provided guidance to businesses on what constitutes responsible business conduct. In 2012, the Securities and Exchange Board of India (SEBI) mandated the top 100 listed entities by market capitalisation to file business responsibility reports (BRRs) as per the disclosure requirement emanating from the NVGs. This was extended to the top 500 entities by market capitalisation from 2015, and to the top 1,000 by December 2019.

Format of the BRSR framework

The framework specifies two formats:

1. Comprehensive BRSR: This was developed for the top 1,000 listed entities in India for which reporting is mandatory and may be extended to others in the future

2. BRSR Lite: The MCA proposed a 'lite' version for the ease of companies reporting for the first time, aimed at encouraging reporting by unlisted companies. The adoption of BRSR Lite is voluntary for such organisations

Structure of BRSR framework

Section A: General disclosures

Focuses on basic information about the company, such as size and location

Section B: Management and process

Under this, the organisation is required to disclose information on policies and processes relating to the National Guidelines on Responsible Business Conduct (NGRBC) dealing with leadership, governance, and stakeholder engagement

Section C: Principle-wise performance

Indicates how a company is performing in respect of each principle and core element of the NGRBC. It requires companies to demonstrate their intent and commitment to responsible business conduct through actions and outcomes

The process of revision of NVGs began in 2018 and after numerous stakeholder consultations, they were revised and released as the NGRBC in 2019. The BRSR framework, launched in 2021, is based on the NGRBC framework and applies to the top 1,000 listed companies by market capitalisation. It is voluntary in fiscal 2022 and mandatory from fiscal 2023 for the companies.

These developments have stimulated the evolution of disclosures and ESG reporting in India.

Indian companies also use the GRI, SASB and CDP frameworks. Growing awareness of sustainable reporting is evident: investor-requested corporate disclosures for climate change from Indian companies grew 17% on-year in 2020, as per CDP's latest report.

Emergence of ESG funds and indices

With the rising importance of ESG factors for investors, multiple funds dedicated to ESG have emerged in India (see table below). These funds are integrating ESG factors into investment decisions, moving away from the perception that they must be included in investment strategies as a mere formality or as a compliance-based exercise.

ESG funds in India

	Inception	Equity holdings (no of companies)	Investment criteria
SBI Magnum Equity ESG Fund	May 2018	41	Invests 80% in ESG-focused stocks, 20% in other equity/debt money market instruments
Quantum India ESG Equity Fund	July 2019	45	Targets sustainable companies that value ESG factors
Axis ESG Equity Fund	February 2020	51	Minimum 80% investment in stocks with high ESG scores
ICICI Prudential ESG Fund	October 2020	29	Focuses on companies with high ESG scores
Quant ESG Equity Fund	October 2020	26	Uses VLRT + Q2 framework with 40-60% investment in ESG-focused stocks; the fund can also invest in ESG-focused international securities up to 35% of its net assets
Mirae Asset ESG Sector Leaders ETF	November 2020	51	Invests in stocks in a proportion similar to Nifty100 ESG Sector Leaders Index
Kotak ESG Opportunities Fund	December 2020	40	Invests 60-80% in large caps, remaining in smaller ones; the fund can also invest in ESG-focused international securities up to 35% of its net assets
Aditya Birla Sun Life ESG Fund	December 2020	40	Invest 60-80% in large caps and the remaining in smaller ones. A portfolio of 40-50 ESG compliant companies. The fund can also invest in ESG-focused international securities up to 35% of its net assets

Note: In March 2021, two ESG funds HSBC Global Equity Climate Change Fund of Fund and Invesco India ESG Equity Fund were launched
Source: CRISIL

Allocation of international SRI funds to India increased to $28 billion in 2019 from $13 billion in 2012. According to a Kotak report, the ESG investing trend in India is likely to gather momentum in tandem with the global trend. The report expects SRI assets in the five major markets (Europe, the US, Japan, Canada, and Australia/New Zealand) to touch $53.7 trillion by 2022, logging 15% CAGR since 2012 (source: Global Sustainable Investment Alliance).

The total AUM of India's 10 ESG funds was Rs 10,473 crore as of March 31, 2021. It has increased more than four times over the past three years, driven by the inception of multiple ESG funds during this period. In India, ESG is expected to grow at least at 15% annually, to reach over $60 billion in 2025.

Sustainable bond issuances by Indian companies are growing rapidly over the last few years. In 2020, nine companies had collectively raised $2.33 billion by issuing sustainable bonds, especially green bonds.

A few ESG indices have also emerged in the country. NSE Indices launched the Nifty100 ESG Sector Leaders Index in 2017, which gives investors exposure to select large-cap companies in the Nifty 100 Index that have performed well on ESG risk management. The ESG index excludes companies engaged in tobacco, alcohol, weapons and gambling.

If we consider the rolling-returns performance of domestic ESG index and general equity index, a similar trend can be witnessed. The Nifty 100 ESG Index has beaten the Nifty 100 index over all periods analysed between April 1, 2011 and March 31, 2021. In various market phases, too, ESG has mostly performed better. Another important point to be observed is that even though the ESG theme outperformance against outperforming general equity, it is generally doing it with lower volatility over longer investment horizons.

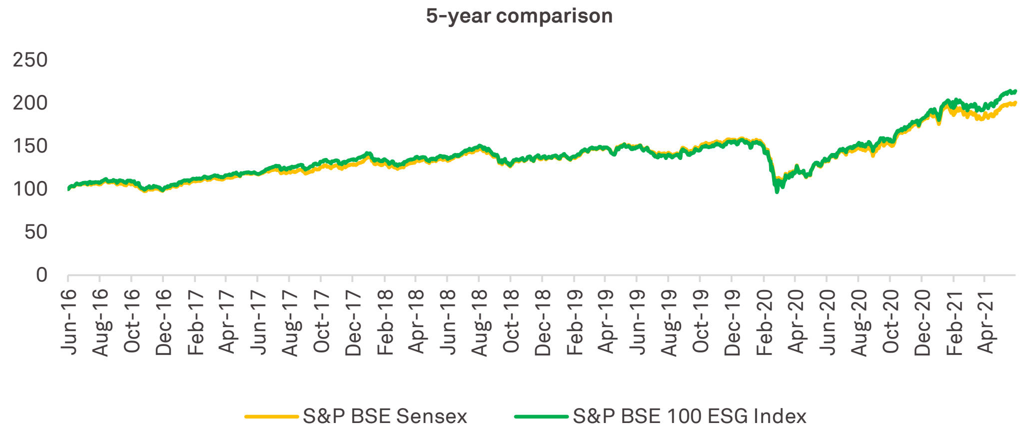
Rolling returns and volatility comparison between ESG and general equity

	Mean		Standard deviation	
	Nifty 100	Nifty 100 ESG Index	Nifty 100	Nifty 100 ESG Index
1 month	0.8%	0.9%	57.6%	58.3%
3 months	3.0%	3.3%	34.9%	35.4%
6 months	5.8%	6.5%	23.6%	24.0%
1 year	10.9%	12.3%	15.1%	15.3%
3 years	11.5%	12.6%	4.9%	4.7%
5 years	11.0%	11.8%	3.6%	3.5%
7 years	16.2%	17.8%	2.6%	2.5%

Note: (1) Data based on average rolling returns for the period between April 1, 2011, and March 31, 2021; (2) Returns less than one year are absolute and greater than one year are annualised; (3) Green colour code indicate outperformance while pink denote underperformance for the specific time period; in the volatility, green colour code indicates lower volatility while pink denotes higher volatility.
Source: NSE, CRISIL Research

The other ESG indices in India are the MSCI India ESG Leaders Index and the S&P BSE 100 ESG Index. Both indices aim to provide investors with exposure to companies that score well on ESG parameters, and help integrate ESG aspects into mainstream investment decisions in India.

S&P BSE Sensex versus S&P BSE 100 ESG Index



Source: S&P

Index name	Index level	5-year return
S&P BSE Sensex Jan 1, 1986	52,306.08	14.14%
S&P BSE 100 ESG Index Oct 26, 2017	262.42	15.69%

Increasing stewardship focus

Many countries have adopted stewardship codes over the past decade owing to growing market concerns about corporate governance serving a wider range of stakeholders. The UK was the first country to adopt a stewardship code in 2010. It was followed by Japan, Hong Kong, Denmark, Malaysia and Taiwan, among others.

India joined the ranks with the Insurance Regulatory and Development Authority of India issuing guidelines on a stewardship code for insurers in 2017 (revised in February 2020). The Pension Fund Regulatory and Development Authority issued similar guidelines for pension funds in 2018, and SEBI issued guidelines for mutual funds and alternative investment funds (AIFs) in 2019.

The codes emphasise monitoring institutional investors' investments and engagements with investee companies on governance-related matters. They also require institutional investors to exercise independent judgement when casting votes at the shareholders' meeting, as well as disclose their voting policies and trends. They direct investors to report their stewardship activities.

Gaps and opportunities

India will require $2.5 trillion from 2015 to 2030, or roughly $170 billion per year, for climate action, as estimated in the country's Nationally Determined Contribution (NDC). Yet, a report by the global analysis and advisory organisation Climate Policy Initiative found that green finance flows totalled only $17 billion in 2017 and $21 billion in 2018. Sectors such as renewable energy, sustainable transportation (including mass rapid transit systems and electric vehicles), and power transmission occupied the bulk of financial flows.

Similarly, a report by Standard Chartered notes that India needs $2.64 trillion in investment to meet the SDGs, with investment opportunities for the private sector totalling over $1.12 trillion by 2030.

Investors and corporates are in a prime position to channel investments into areas related to ESG and benefit from the gaps in the current market. Companies that are trying to solve the crises of the not-so-distant future will be rewarded with competitive advantage. This could mean creating new products or launching services that address emerging environmental and social needs or open currently unserved customer segments.

Opportunities for Indian ESG investments

Opportunities from national targets	• $5 trillion GDP by 2025 • SDGs by 2030 require $2.64 trillion • Paris goal of 175 GW of renewable energy by 2022 and 450 GW by 2030 GHG emissions reduction requires $2.5 trillion
Opportunities from investor demand (responsible investment)	• Biofuels and other waste to energy sectors • Carbon capture and storage technologies • Water and sanitation • Green infrastructure such as buildings • Financial inclusion products for the un-banked • Climate-resilient agriculture and food storage • Crop insurance • Energy efficiencies in micro, small and medium enterprises (MSME)

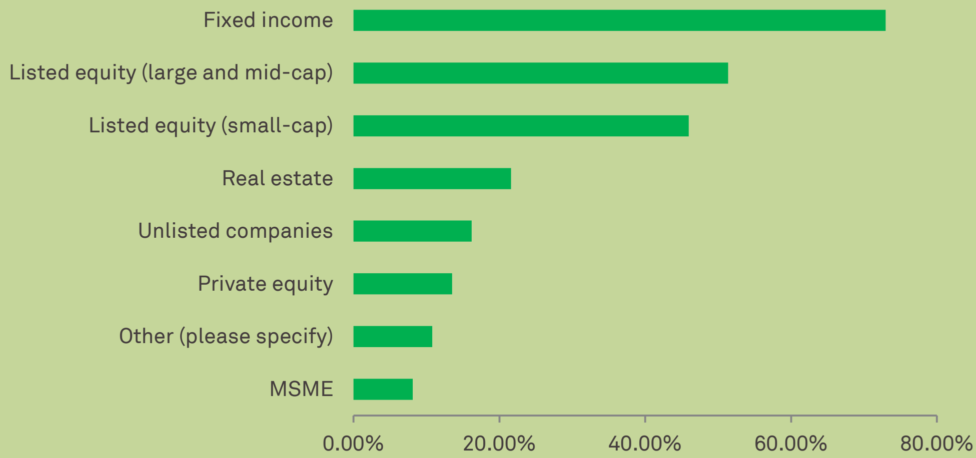
CRISIL ESG market survey findings

To understand the market perception of ESG and gain insights from key stakeholders, CRISIL Research conducted a survey among 100 respondents – 40 investors, 40 corporates and 20 intermediaries – over May-June 2021.

This section presents the key findings from our survey.

Investors

Which asset classes do you invest in/lend to?

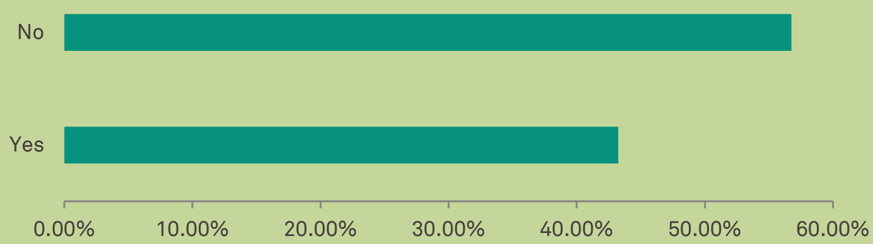


Source: CRISIL Research

- As many as 72% of the respondents operate in the fixed income space, while 51% and 45% are investors in listed equity (large and mid-cap) and listed equity (small-cap), respectively. A small proportion are in private equity, real estate, MSME, and unlisted categories. Investor and lender respondents are focused on the following sectors
  - Manufacturing
  - Renewable
  - Cement
  - NBFC
  - Energy
  - FMCG
  - Pharma
  - Technology
  - Real estate
  - Consumer discretionary
  - Banks
  - Financial services
  - Consumer
  - Power
  - Oil and gas
  - Healthcare
  - BFSI
  - Sovereign
  - Metals
  - Finance

- Nearly half the respondents considered ESG data or scores in their investment/lending decisions, while the other half did not. This allows us to achieve a balanced understanding of the Indian ESG market and gain important insights

Do you use ESG data/scores in your investment/lending research?

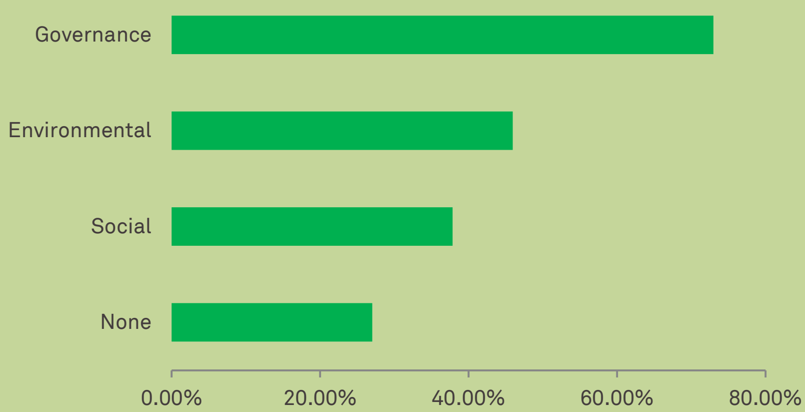


Source: CRISIL Research

Governance accorded higher priority

- We found that those who considered ESG in their decision-making gave higher priority to corporate governance (73%), and almost equal importance to environment (46%) and social (38%) issues
- The higher preference for corporate governance could be because the governance data available on companies is more granular and comparable, and the regulations and compliance with regard to corporate governance are better developed in the Indian market

Which ESG parameters do you consider in your investment/lending decision?

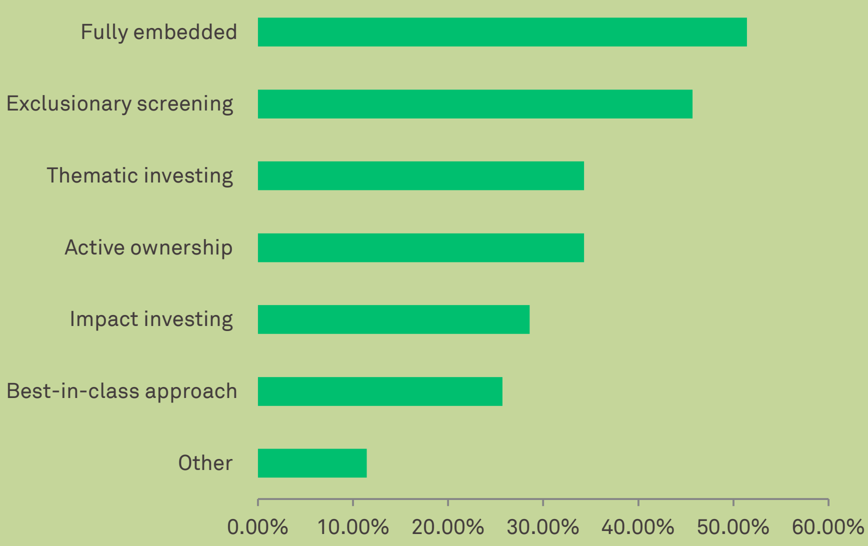


Source: CRISIL Research

Exclusions and integration commonly used strategies; active ownership also gaining traction

- The majority of the respondents who considered ESG use exclusions and integration (where ESG data was incorporated alongside financial analysis) as strategies to embed ESG
- These strategies, which are seemingly at the extreme ends of ESG implementation, are widely used by investors at different stages of ESG integration. The more developed and evolved investors use ESG scores and data and incorporate them to inform decision-making, whereas those starting their ESG implementation process use the exclusions strategy as it is easier to implement
- Active ownership (primarily through voting and engaging for more data) and thematic investing were the other two strategies used by investors. We believe with the new stewardship codes, active engagement will continue to gain significance

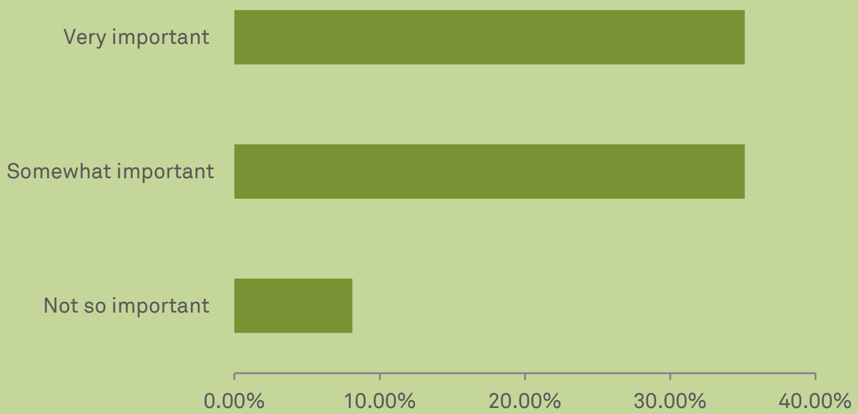
How do you consider ESG in your investment decisions and analysis?



Source: CRISIL Research

- Over 50% of the respondents said ESG was critical to their fund-raising and internal decision-making, while 36% said it was somewhat important. This denotes a marked shift in perception over the years

How critical are ESG disclosures for fund-raising and internal decision-making?



Source: CRISIL Research

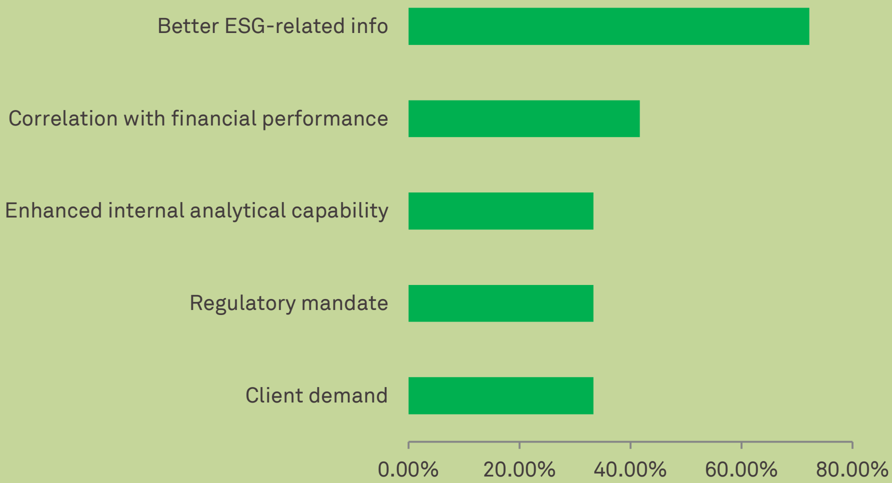
Lack of good-quality ESG data and insufficient knowledge continue to plague investors

- Among those who are not currently incorporating ESG in the decision-making processes, most cited lack of good-quality information or ESG data (37%) and insufficient knowledge to take ESG into decision criteria (35%) as important roadblocks. While we believe problems relating to poor-quality ESG data will slowly resolve with the new BRSR disclosures, training and awareness programmes among investors are vital to advance the ESG momentum in India
- Other reasons cited as significant barriers include 'ESG is not mandatory in India', 'not material to their business' (20%), and 'lack of client demand' (10%)

Better insights on ESG-related risk and opportunities cited as potential incentive to do more

- As a follow-up question, when asked what would incentivise them to consider ESG in their decision-making, 73% of the respondents cited better information on ESG-related risk and opportunities of companies
- About 42% said better correlation of ESG factors with financial performance would help them justify considering ESG, and 33% said development of internal capability to carry out ESG analysis would help. This fits with the above response that lack of knowledge is a key factor preventing investors from implementing ESG processes and systems

What would incentivise you to consider ESG in investment decisions?



Source: CRISIL Research

Inconsistent, non-comparable, inaccurate ESG data highlighted as challenges

- Over 75% of the respondents cited inconsistent data across companies in the same sectors as an important challenge. Over 60% also mentioned inaccurate/non-verified ESG data, non-comparability of data, and inadequate data published by companies as stumbling blocks. This is similar to problems with ESG data highlighted by investors around the world. We believe BRSR disclosures and ongoing work to converge some of the global reporting frameworks will partially address this
- Some 20-30% of the respondents mentioned low demand for ESG information from domestic investors as an issue, adding that information that ends up being published is not considered material to the company's operations, and therefore useless for investors
- Inadequate information on smaller companies, especially in relation to companies within supply chains of large companies, was another gap highlighted

BRR/BRSR reporting framework of choice for domestic investors; TCFD/SASB for global investors

- In terms of ESG reporting frameworks, the majority of the investors considered BRR/BRSR as the most important source of information on companies. This was followed by the GRI, CDP, SASB and TCFD frameworks
- However, the importance of these reporting frameworks varied between domestic investors and global investors investing in India. In the case of the latter, investor-friendly TCFD and SASB frameworks were given higher importance. Domestic investors prefer more localised information available through BRR/BRSR, while global investors give more weightage to global frameworks that disclose material and sector-specific information on companies
- Other sources of ESG information cited by respondents included company annual/sustainability reports, pollution control boards/government web-sites and proprietary research frameworks

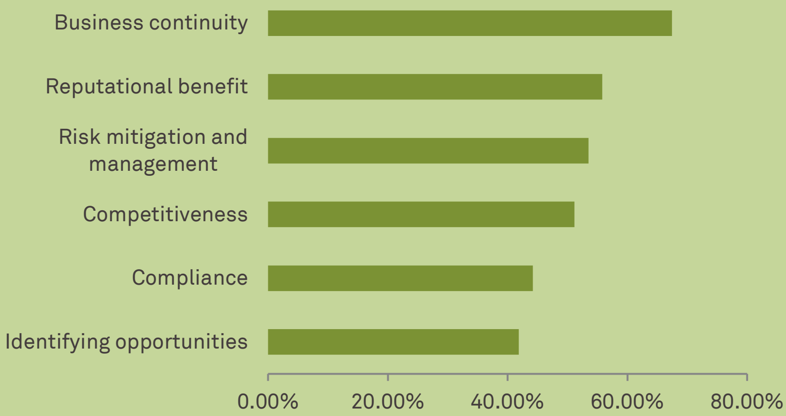
Understanding of materiality and availability of data rising

- Over 70% of the investors opined that availability of ESG data had increased from the previous years, and over 30% said it had gone beyond a compliance-based exercise. They also noticed improvements in material ESG information. This could be attributed mainly to BRR/BRSR disclosures and increasing awareness of India Inc to disclose ESG information for the benefit of global and domestic investors as well as its shareholders and customers
- However, many respondents felt ESG data is not nearly as quantifiable as they would like, and more alignment with global reporting frameworks is needed

Corporates

About 60% of the corporate respondents said they systematically used ESG as a risk management tool or to inform corporate strategy. Most had a separate team for ESG/sustainability. Around 80% felt ESG was critical for raising capital and other decision-making processes. Business continuity emerged as the top driving factor.

To your organisation, ESG means:

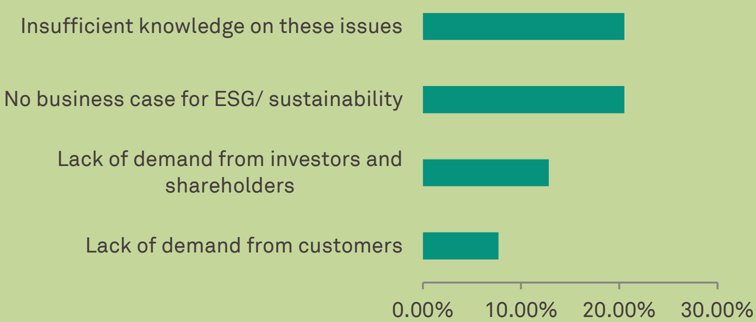


Source: CRISIL Research

Lack of business case for ESG correlates with lack of expertise

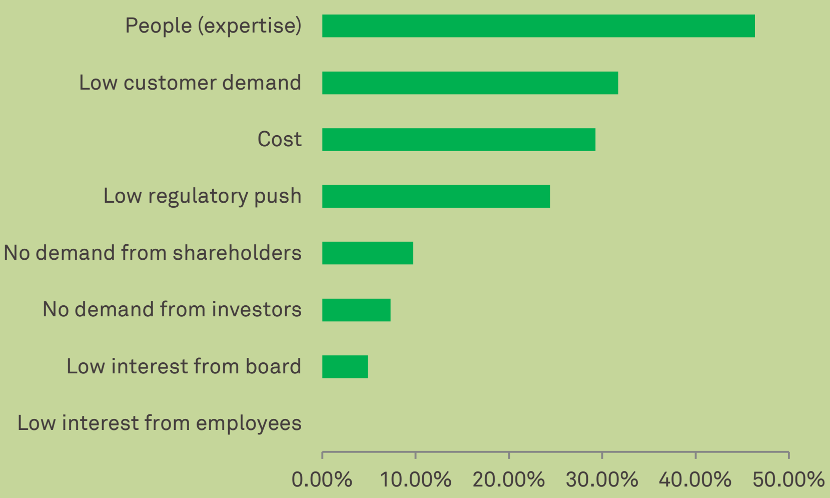
- Most respondents who said they did not consider ESG cited lack of a business case for ESG as the reason
- Lack of expertise was also stated as an important barrier. We see a positive correlation between companies that do not have sufficient expertise in the sustainability domain and companies that feel there is no business case for it
- Awareness and capacity building continue to be important factors distinguishing leaders and laggards. In cases where resources and expertise may not be a concern, lack of a regulatory push to consider sustainability factors has limited companies from moving forward

Reason for not considering ESG factors in decision-making



Source: CRISIL Research

Factors limiting implementation of ESG/sustainability plan at an organisational level



Source: CRISIL Research

Alphabet soup of reporting frameworks

- In terms of challenges in collecting and reporting ESG data, 31% of the respondents said data collection was too resource-intensive at the company level, while 36% said reporting against many reporting frameworks was time-consuming. This is a concern in line with global conversations around ESG reporting. We expect that with ongoing work to converge various reporting frameworks, we will see a more streamlined reporting requirement
- As many as 31% of the respondents also cited data collection at the supply-chain level as a significant challenge
- BRSR/BRR was the most preferred reporting framework, followed by GRI and IR. While the preference may be founded on regulatory requirements, more demand from investors may see a shift towards investor-friendly global frameworks such as TCFD and SASB

ESG disclosure requirements growing

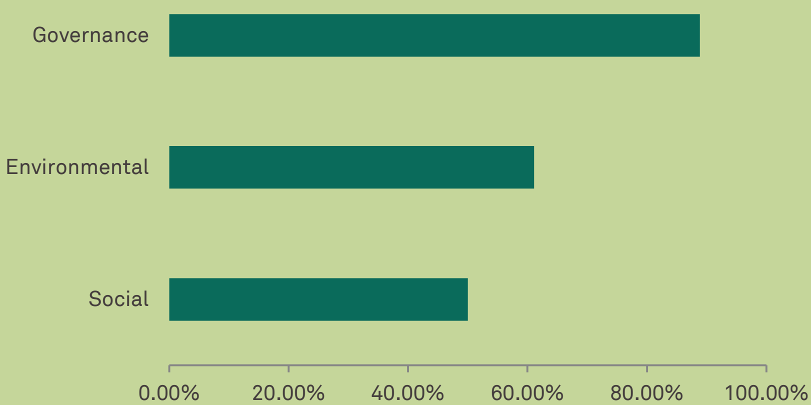
- In terms of the evolution of disclosure requirements, over 66% of the respondents believed demand for ESG disclosures from investors has increased and close to 50% noted that requirements from regulators had increased. This is an encouraging sign as pull and push from regulators and investors will see the market evolve and mature in the near future
- About 43% also noted that demand for material information from companies has risen significantly. Consequently, the companies said they require more training on ESG as well as support to report as per global frameworks

Intermediaries

We also surveyed intermediaries that service clients such as retail and institutional investors, family offices, and high-networth individuals.

Overall, the respondents noted interest in ESG as well as its criticality has been increasing among their clients. Similar to the response in the investors' survey, most respondents felt corporate governance issues were more important than environment and social factors in their advisory and distribution process.

Which ESG factors do you consider important in your services?



Source: CRISIL Research

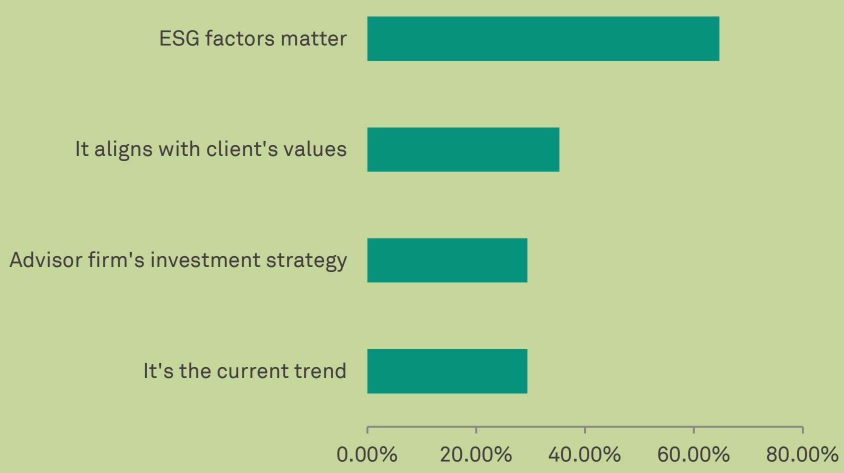
Capturing ESG risks in valuation drives advisors

- Capturing ESG risks in valuation was the top motivation for advisors to consider ESG – over 60% chose this response
- About 45% said having a positive impact was an important motivation to consider ESG
- Other responses included mandate by investment policy (34%), client organisation and values (27%), client demand or mandate (27%), and higher risk-adjusted returns (16%)

Concise material information important for clients

- About 60% of the respondents said clients sought only limited information pertaining to specific ESG parameters of a company as opposed to wanting a deep-dive analysis
- According to the intermediaries, clients were interested in ESG mainly because of the belief that ESG factors have a significant impact. This shows that, in the perception of intermediaries and advisors, investors are considering ESG beyond compliance. Aligning with values and protecting downside risks were some of the main reasons to consider ESG

Why are clients interested in ESG investing?



Source: CRISIL Research

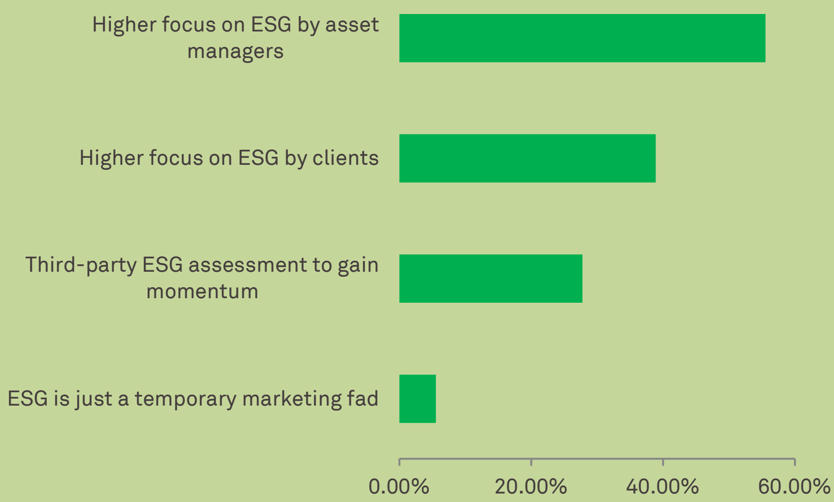
ESG services to clients not attracting a premium due to the competitive nature of the industry

- An overwhelming 80% of the respondents said clients were not ready to pay a premium on services provided for ESG integration in their advisory products, while 45% said they were highly unlikely to pay a premium on securities with higher valuation for ESG consideration

Future trends highlight more demand for and focus on ESG, but remain cautiously optimistic

- In terms of future trends post pandemic, respondents stated that they expected higher focus on ESG from asset managers and slightly more demand for ESG from clients

As an advisor, top changes you see in ESG post pandemic



Source: CRISIL Research

CRISIL ESG scoring methodology

We have used our proprietary ESG methodology to score 225 companies[6] across 18 sectors. This evaluation is based on publicly available information released by the companies. It also factors in other information available in the public domain, such as penalties and fines imposed on the companies and their directors. The assessment is based on quantitative as well as qualitative disclosures. As this is an objective evaluation based on publicly available information, the quality of disclosures provided in the public domain is an important determinant of the overall score. Material events during a year could lead to a change in scores on an intra-year basis.

We also expect that, as the nature of regulatory disclosures and available benchmarks evolve, and the BRSR becomes mandatory for Indian companies, data availability will improve. CRISIL will continue to evolve its approach and methodology to provide the most relevant and investor-ready ESG scores.

CRISIL ESG score provides a comprehensive assessment of a company on all key ESG parameters using CRISIL's proprietary framework, and is based on information available in the public domain, including from third-party providers.

The assessment, which factors in the track record, trends and disclosure standards followed by the company, covers all material ESG parameters relevant in the Indian context. It is powered by CRISIL's strong sectoral research capabilities and rich databases.

For this set of scores, we have treated non-disclosure on any given parameter in the following manner: the scoring framework factors in a mix of non-disclosure penalties, expert judgement and/or third-party public data sources (e.g. regulatory filings and customer satisfaction rankings) to ensure comparability and relativity.

Our framework integrates over 100 different ESG assessment parameters across E, S and G. It focuses on ensuring the scores are relevant in the Indian context, given the local disclosure requirements and relative benchmarking with other Indian companies. At the same time, comparisons are made with a few key global companies to assess the gap between Indian companies and them to ensure appropriate benchmarking of companies on individual parameters.

CRISIL's experience in analysing over 80 industries through two decades makes it well-positioned to assess material issues at the sector level through different lenses. This is critical for relative assessment of company scores across diverse sectors, including manufacturing, services, energy/infrastructure and financial services.

[6] *Largest listed companies by market cap, barring some exclusions*

CRISIL's ESG approach: key differentiators

1 Framework mapped to local country requirement

- Benchmarks based on domestic companies
- India-specific attributes comprise evaluation of regulatory compliance-labour issues, safety incidents, tax disputes, water use, etc.
- Governance attributes from LODR regulations and Kotak Committee

2 Pan-sector scale with unique approach to factor sector-related nuances

- Cross-sector comparability and limited disclosures are adequately considered
- CRISIL's in-depth sectoral know-how and cross-linkages leveraged to identify key material ESG issues and risks

3 Based on publicly available disclosures

- Assessment based on publicly available sources and third-party data to ensure consistency in approach

4 Comprehensive framework to overcome data availability limitation

- Benchmarking compares companies within a sector using unique sector-specific parameters
- Framework incorporates non-quantitative information by applying expert judgement to enable comparison

5 In-depth governance evaluation

- Detailed governance evaluation assessing:
  - Board independence, functioning, diversity and skill
  - Management track record
  - Timeliness and disclosure quality
  - Shareholder grievance redressal, whistle-blower complaints
- Over a decade-long experience in governance evaluations

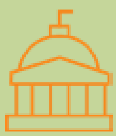
Evaluation framework – parameter segmentation

Environmental*

- GHG emissions
- Energy use
- Waste and pollution
- Water use
- Land use

Social*

- Workforce and diversity
- Occupation/product safety
- Customer and vendor engagement
- Ease of access and reach
- Communities and society



Governance

- Board performance and independence
- Ownership concentration
- Management track record
- Shareholder relations
- Disclosure practices/statements

**A few parameters have been assessed based on a sectoral peer review from information available in the public domain*

Environmental

For environmental evaluation, material issues such as GHG emissions, waste disposal, and use of energy, water and resources are assessed for specific industries based on criticality from an environment perspective. The impact of these issues varies for sectors as their significance across sectors is different.

For instance, for a manufacturing sector such as chemicals, assessment of waste disposal and GHG emissions is crucial for evaluation. On the other hand, for the financial sector, assessment of lending to environmentally friendly projects/sectors is considered important.

Further, company performance on these metrics (based on disclosures) is evaluated to arrive at the final scores.

Finally, appropriate deflators are applied for non-compliance with environment laws and any adverse regulatory action that has led to fines, penalties and bans. For computation of 'E' score for a company we have looked at a mix of weightage of sector and a relative company performance of the company within the sector it operates. The sector weight is assigned ensure comparability of companies across sectors.

Social

For social evaluation, the key issues assessed fall under the broad functional areas of workforce and diversity, product safety, supply chain, customer satisfaction, and communities and society. The importance of these issues varies across sectors, though it is similar across companies within a sector.

For a manufacturing sector such as cement, assessment of safety of employees and treatment of project-affected families is critical for evaluation. Whereas for a services sector such as information technology (IT), assessment of employee retention rate and customer data privacy-linked issues is key.

Similar to the 'E' scoring, appropriate deflators for non-compliance with chosen social parameters – leading to fines/penalties and adverse regulatory action owing to disregard for social issues – are applied and appropriately factored in the 'S' score. Sectors that have adverse impact on society are also scored lower. For computation of 'S' score for a company we have looked at a mix of weightage of sector and a relative company performance of the company within the sector it operates. The sector weight is assigned ensure comparability of companies across sectors.

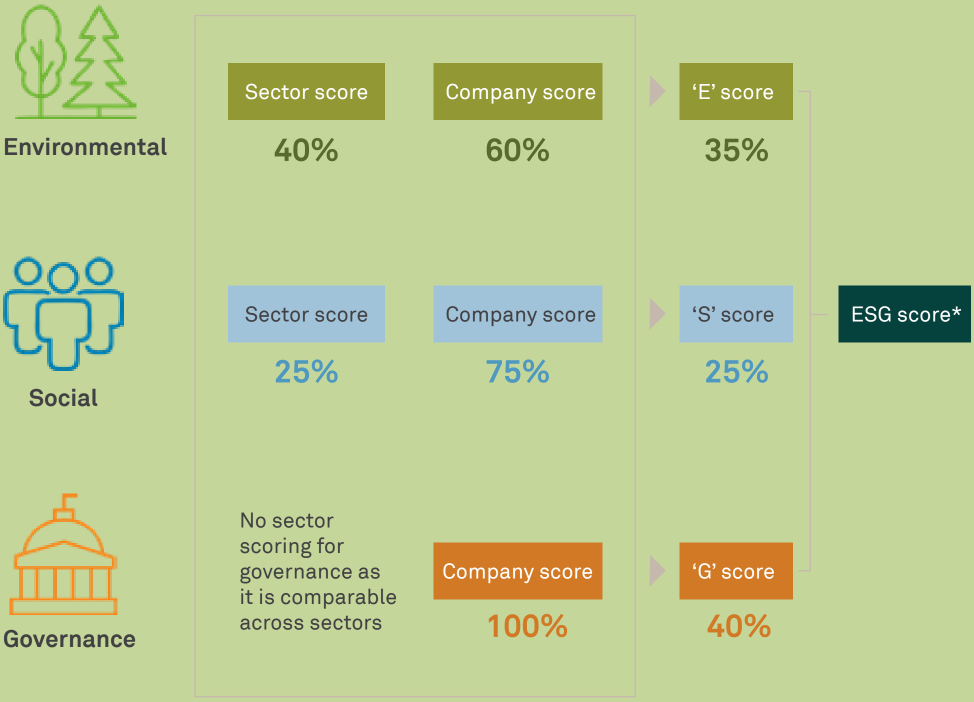
Governance

For governance evaluation, material issues such as Board functioning and independence, management track record, and disclosure quality are assessed. As the issues are company-specific, a sector-agnostic approach is adopted, where company-specific nuances drive the evaluation. Further, adverse developments linked to the company, and its directors and management are assessed and appropriate deflators to the scores applied.

Overall ESG score

To arrive at the overall company ESG score, relevant weights are assigned to E (35%), S (25%) and G (40%) to reflect the relative importance of factors. Companies are scored on a scale of 1-100, where 100 is the highest.

Company assessment framework



**The ESG scores are on a scale of 0-100, where 100 is highest*

Data collection process

Our research analysts have collected ESG data from companies' annual reports (for three years up to and including fiscal 2020), company websites, sustainability reports, government websites, news sources, stock exchange filings and other third-party data providers. Each data point and its scoring goes through a rigorous process of quality check so that data and assessments are standardised and consistent across all the sectors and companies.

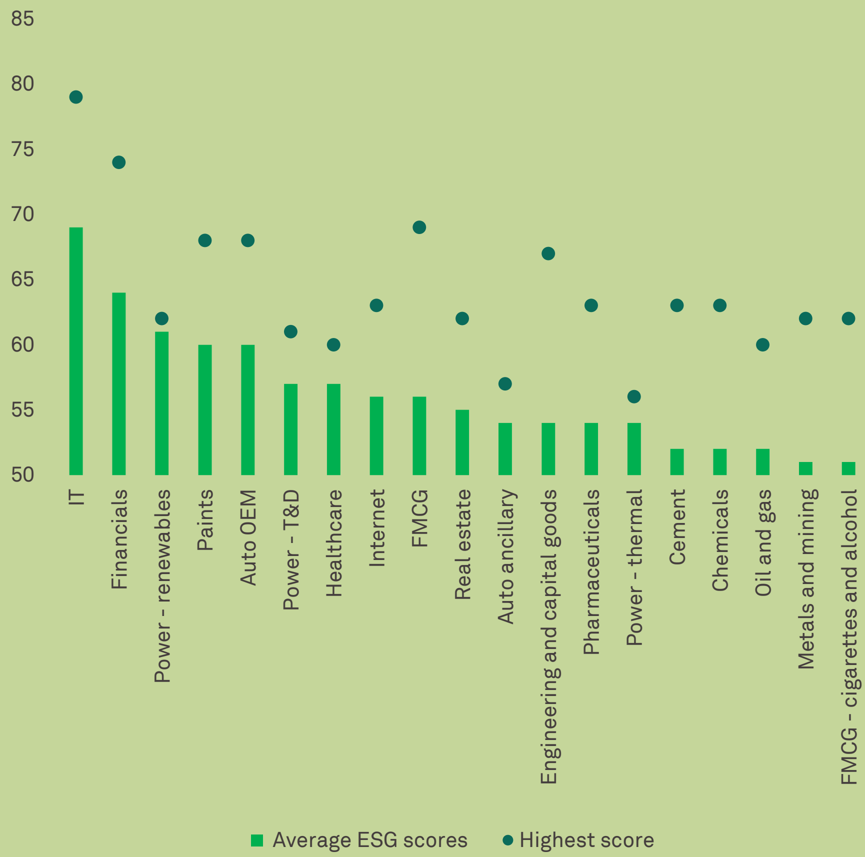
CRISIL analysis and scores

The broad brushstrokes: how India Inc measures up on sustainability

How do the 225 companies, taken as a whole, perform against our ESG indicators? Our key insights at a glance:

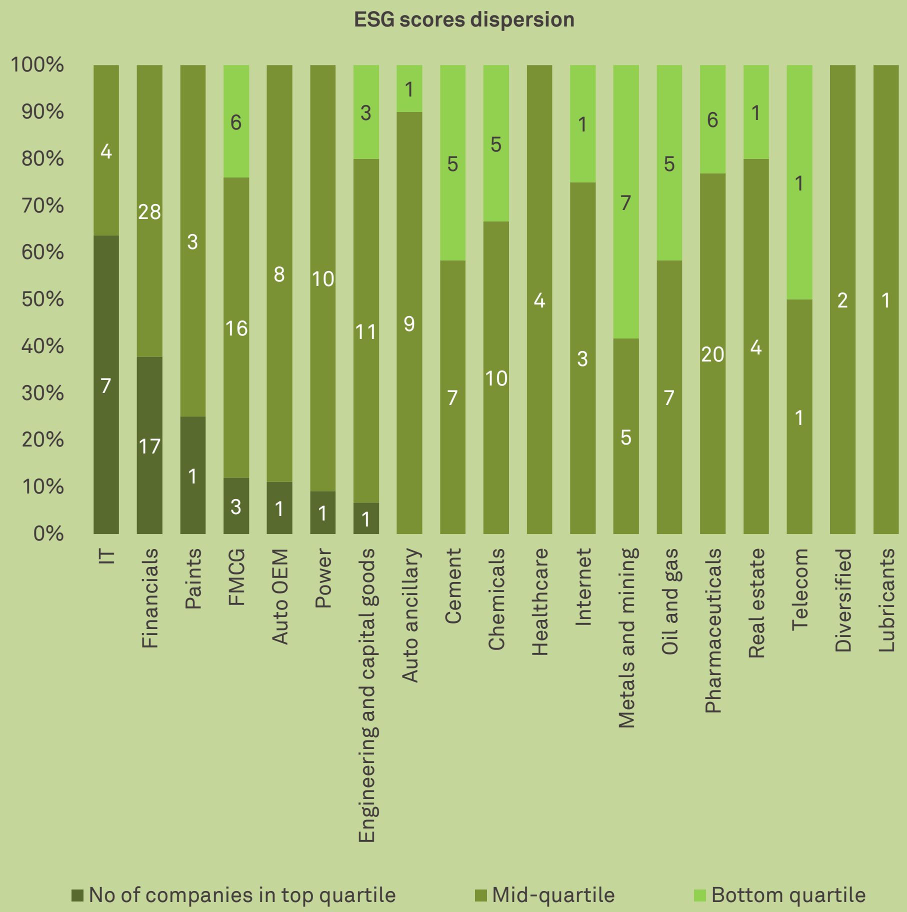
- Companies in services sectors such as IT and financial have the highest overall ESG scores on account of lower emission, water and waste issues, higher diversity and consistently high tax contribution. Many of them also have better disclosures. Barring renewables, leaders in ESG significantly outperform their peers across sectors

ESG score sector average vs sector leaders



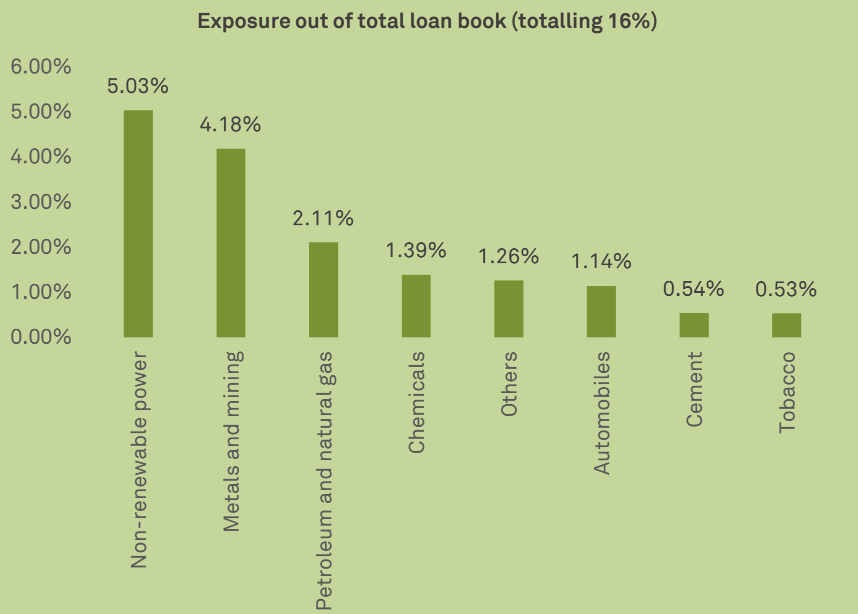
Source: CRISIL Research

- The IT sector has the highest number of high scorers on ESG followed by Financials sector.



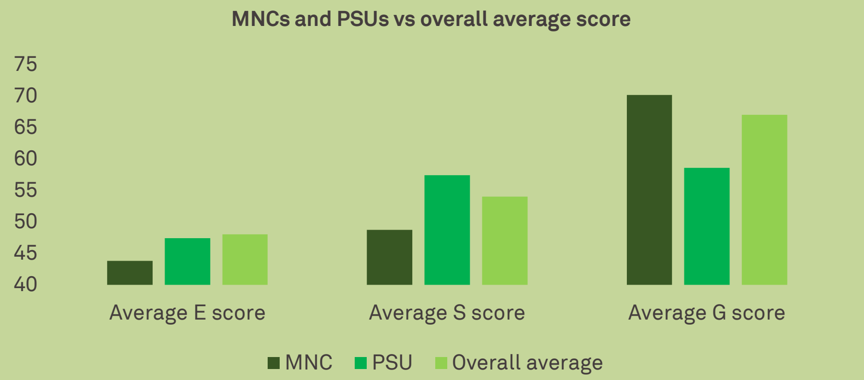
Source: CRISIL Research

- Companies in sectors such as oil and gas, chemicals, metals and mining, and cement have lower ESG scores on account of higher emissions levels and extensive use of scarce natural resources. Further, the extent of ESG disclosures on emission parameters, biodiversity and grievance redressal for communities in sectors such as chemicals, and oil and gas are relatively low
- Companies in the banking, financial services and insurance (BFSI) sector with a higher exposure (in the form of loans and advances, and investments) to environmentally unfriendly industries have a lower score. Social scores are higher for financial entities with greater exposure to priority sectors, rural-linked and microfinance segments. We found that 16% of the overall loan book of our BFSI peer set was in environmentally harmful sectors. Of this, the largest proportion was in thermal power and metals



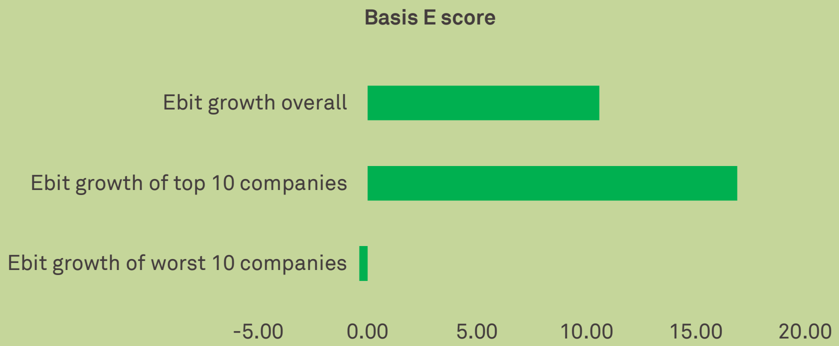
Source: CRISIL Research

- Companies in sectors such as power transmission and distribution score better on social parameters due to wider electricity coverage to under-serviced and rural areas. Renewable energy companies have higher E scores owing to lower emissions and environmentally friendly generation
- On average, multinational companies (MNCs) and private institutions perform better on governance. But MNCs tend to see lower overall scores on account of limited E and S disclosures, in general
- Public sector undertakings (PSUs) tend to have lower governance scores due to non-appointment of independent directors, with many having no independent directors, or a common Chairman and Managing Director (CMD) post, or limited director tenures due to frequent changes

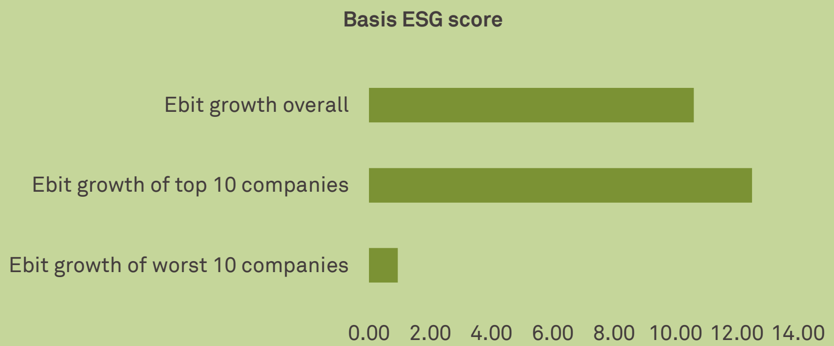


Source: CRISIL Research

- Entities with quantitative disclosures on key ESG parameters tend to score higher across parameters versus other entities which have qualitative disclosures or lack disclosure altogether
- While this is a first-time analysis of ESG scores, there are early indications of a relationship between ESG scores and financial performance, reflected in the following:
  - The top 10 companies on both 'E' and overall ESG scores, consistently outperformed their peers on earnings before interest and tax (Ebit) growth over the past three fiscals. The worst on both counts significantly underperformed the peer average



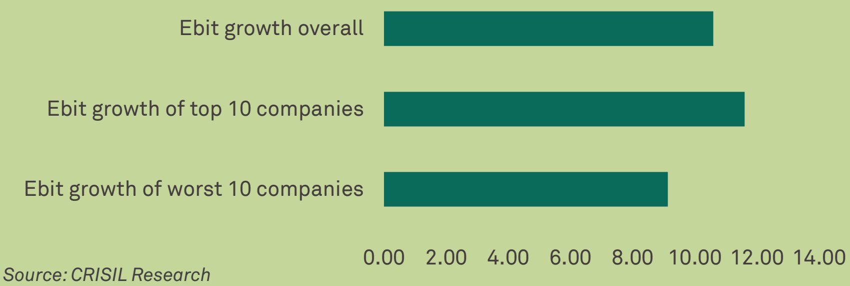
Source: CRISIL Research



Source: CRISIL Research

– 41 companies with a governance score of over 75 (100 being best) showed an operating profit growth of ~13% CAGR (based on past three years' data), well in excess of the average operating profit growth of 10% for those scoring less than 75. The top 10 companies on governance showed similar outperformance trends (see chart below)

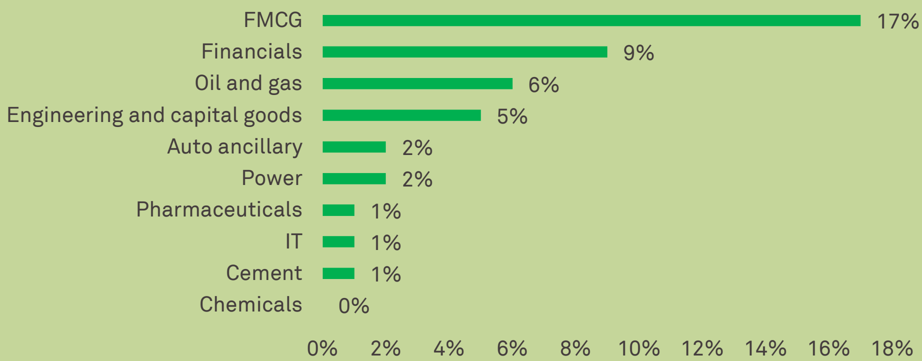
Basis G score



Source: CRISIL Research

- In 10 of 12 sectors comprising more than six companies (in our analysis), the top three G scorers outperformed the worst three in terms of return on equity (RoE). The outperformance was high in FMCG and financial sectors, by 17% and 9%, respectively

Outperformance of sector leaders in terms of RoE



Source: CRISIL Research

Trends in environmental parameters

Non-renewable energy sectors report much higher carbon emissions than manufacturing and services

The thermal power, and oil and gas exploration and production sectors have much higher overall carbon emissions (scope 1, 2 and 3[7]) as a proportion of revenue. That is expected, given their very high direct or indirect carbon emissions. They are followed by large manufacturing sectors such as cement, metals and automobiles.

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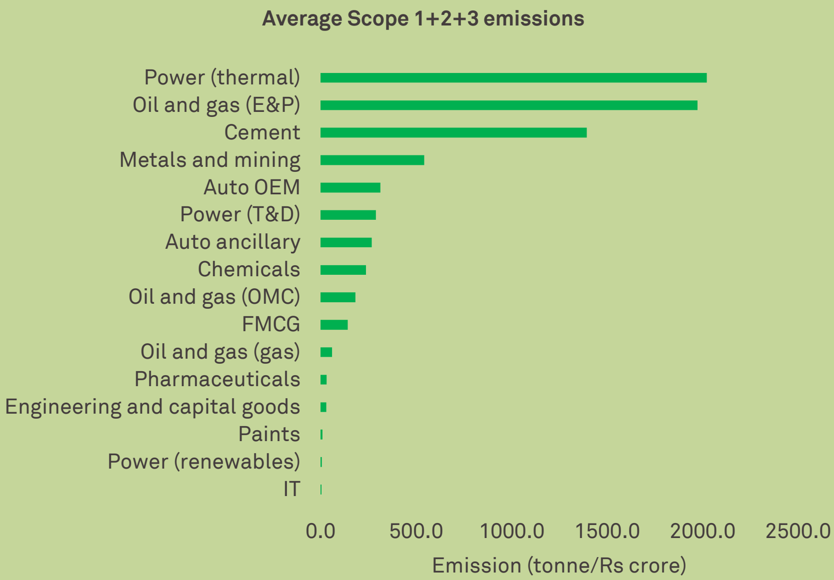
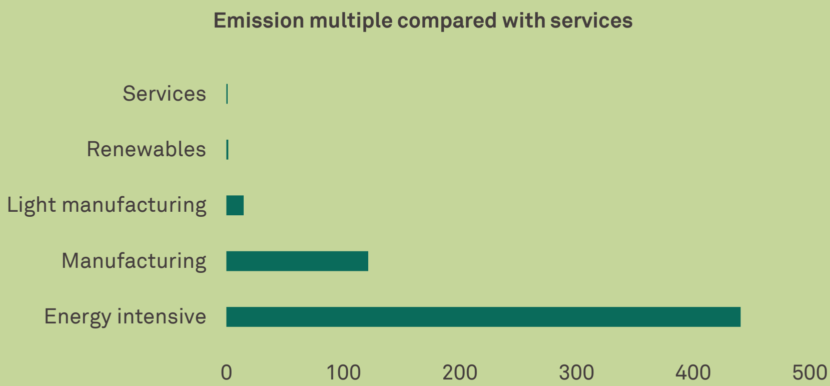
[7]Scope 1 covers direct emissions from owned or controlled sources; Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company; Scope 3 includes all other indirect emissions that occur in a company's value chain



Source: CRISIL Research

Carbon emissions multiple

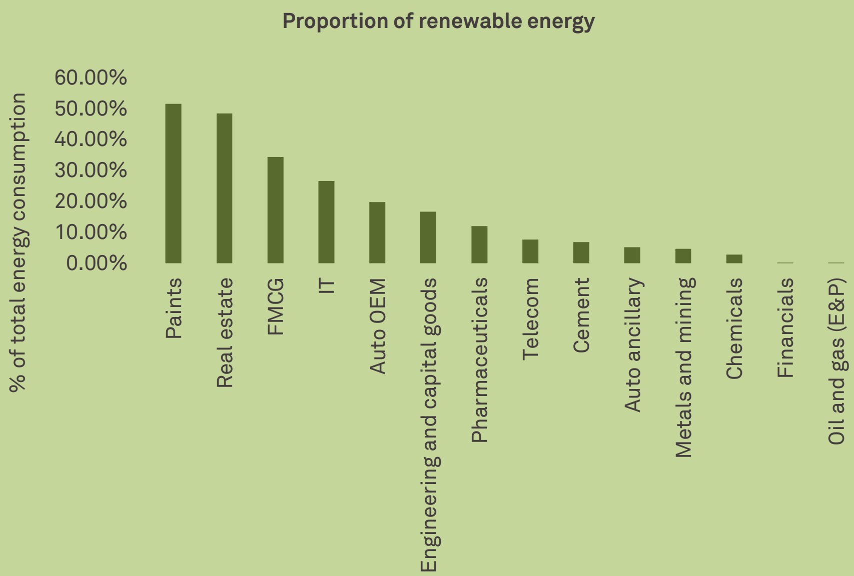
Carbon emissions per revenue multiple for energy-intensive sectors such as thermal power and oil and gas were nearly 440 times those for services sectors such as IT, and over four times those for manufacturing sectors



Notes: 1. Energy intensive - thermal power, oil and gas 2. Manufacturing - cement, metals, auto OEM, auto ancillary, chemicals
3. Light manufacturing - FMCG, pharmaceuticals, engineering and capital goods 4. Services - IT and financial services
Source: CRISIL Research

Average renewable energy share in consumption remains low at about 14%

The proportion of renewable energy usage in the real estate, FMCG and IT sectors is higher, at over one-fourth (of total energy used). A few of the large manufacturing sectors such as metals and mining, chemicals and auto ancillary report relatively low penetration of renewable energy. Higher use of renewable energy correlates with higher E scores.



Source: CRISIL Research

Environmental disclosures of most companies way short of the mark

As things stand, many companies are yet to start tracking environment-related issues, and disclosure levels of most companies leave much to be desired on several parameters.

Parameters with moderately better disclosures are:

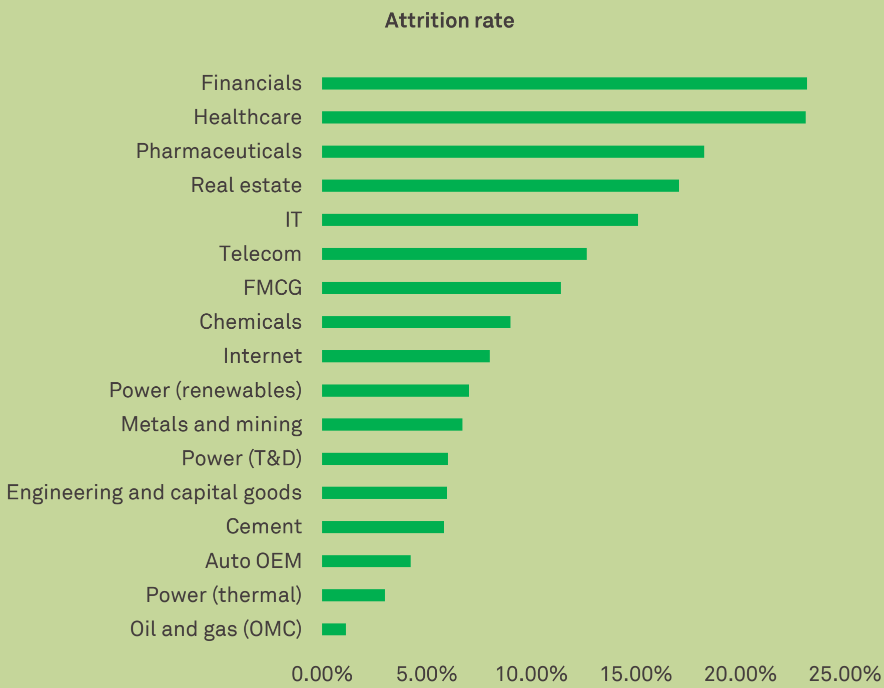
- Share of renewables in energy use
- Overall recycling level
- Water consumption
- Intensity of carbon dioxide equivalent emissions
- Level of hazardous waste generation

We expect environmental disclosures to improve with BRSR becoming mandatory from fiscal 2023 for the top 1,000 listed companies.

Trends in social parameters

Average attrition rate across industries close to 10%

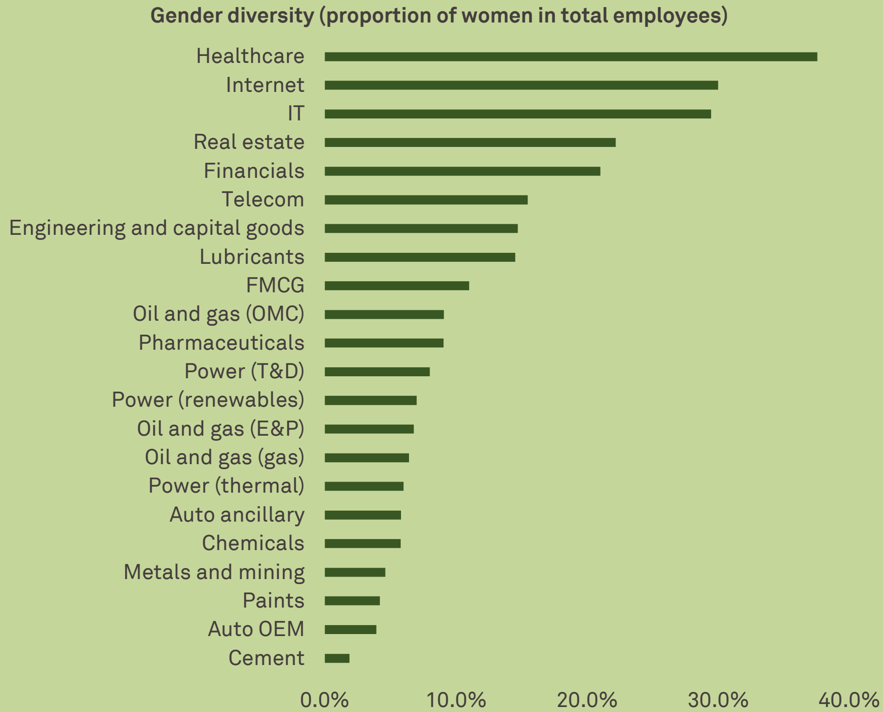
Employee attrition and satisfaction are key metrics that determine sustainable growth of companies in the long term, and form an important input for our assessment of the S dimension. The attrition rate of key services industries such as financial services, healthcare, IT and real estate is relatively high at over 20%.



Source: CRISIL Research

Only about 1 in 10 employees are women, on average

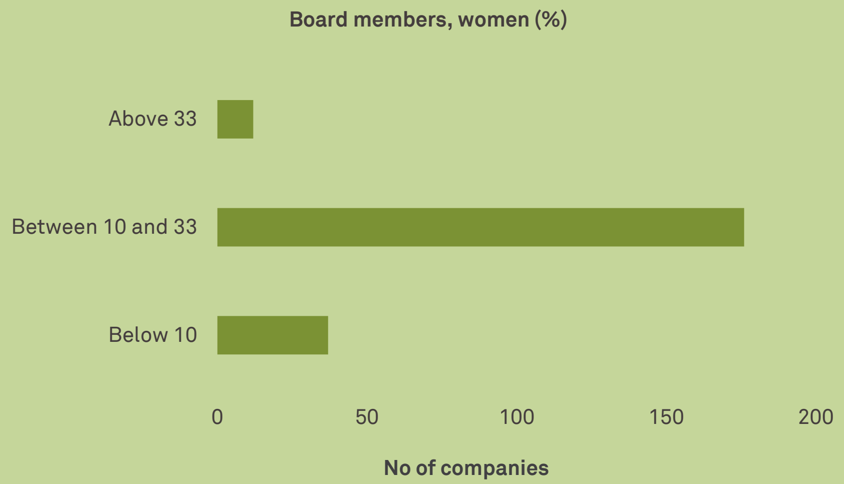
Gender diversity (the proportion of women in total employees) is key for inclusive and balanced decision-making, and a significant ESG consideration. On average, women represented only 13% of total employees of the companies analysed. But this was higher at 26% for companies in the services space such as IT, internet, healthcare, real estate, financial services and telecom sectors. It was much lower at 6% for those in the energy and manufacturing sectors.



Trends in governance parameters

Representation of women on Boards low at ~17%

Representation of women on the Board is crucial for diversity in decision-making at the highest level of an organisation. Only 21 of the 225 companies we evaluated have a minimum of one-third women representation on their Boards. **As many as 12 companies, including five large-cap firms, have no women on their Boards**

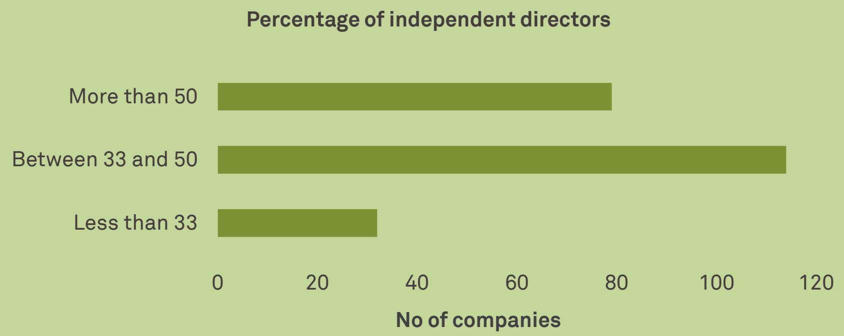


Source: CRISIL Research

Proportion of independent directors modest at 47%; only 8% have more than two-thirds

Director independence is important for corporate governance and protection of the interests of all stakeholders. The average proportion of independent directors on the Board across the companies remains modest at 47%. The presence of these directors is critical for the audit committee (two-thirds should be independent directors) and nomination and remuneration committee.

As many as 32 of the 225 companies we evaluated did not meet the statutory criterion of one-third independent directors, required as per the Companies Act for listed companies. Many public sector undertakings have low independent director representation, and six have no independent director.

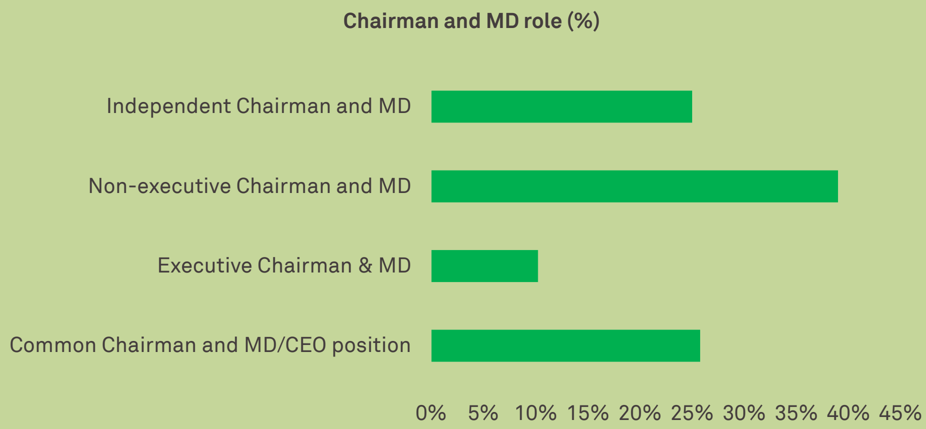


Source: CRISIL Research

25% of firms have an independent Chairman, and 26% a common CMD

Separation of the positions of Chairman and MD provides an important oversight mechanism to reduce excessive concentration of authority. As per SEBI, the positions of Chairman and MD need to be separated for the top listed 500 companies by April 2022.

Currently, nearly 26% of the companies have a common CMD position. Only 25% of our assessed companies have a split position with an independent Chairman. Almost 39% of the companies we evaluated have a non-executive Chairman typically representing the promoter shareholders.

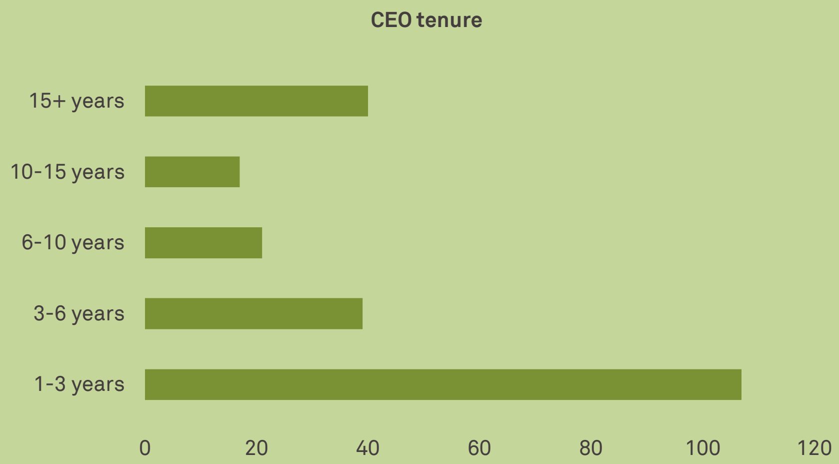


Source: CRISIL Research

Average CEO tenure close to eight years

The ideal CEO tenure is a well-debated topic. Some studies[8] suggest a CEO performs best in the first 4-6 years of appointment, while others put this at 11-15 years.

Of the 225 companies we evaluated, 40 have CEOs with tenure greater than 15 years. As many as 84 companies have MDs/CEOs with tenure under two years.



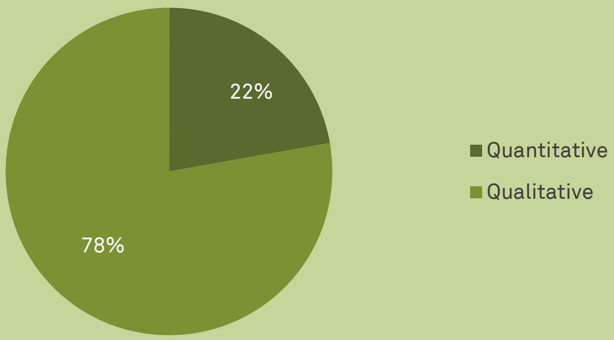
Source: CRISIL Research

[8] *https://hbr.org/2019/11/the-truth-about-ceo-tenure*
https://www.advisory.com/en/daily-briefing/2018/12/03/tenure
https://hbr.org/2019/11/the-ceo-life-cycle

22% have provided quantitative numbers for dividend distribution

Investors require clarity on the company's dividend distribution policy before investing. A large proportion of the companies we evaluated have a dividend distribution policy, but quantitative disclosures are limited. Nearly one-third of the companies with quantitative metrics in dividend distribution policy belong to the financial services industry, mainly because the RBI has defined dividend distribution guidelines.

Dividend distribution policy

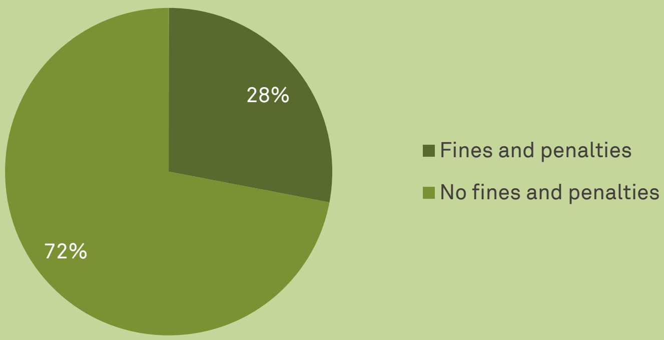


Source: CRISIL Research

Regulatory fines and/or penalties imposed on nearly one-fourth of the companies in the last three years

Many of the companies we evaluated have paid fines and penalties to regulatory authorities such as SEBI, the RBI and the Central Pollution Control Board – mostly on account of insider trading, classification of assets, operational control issues, and pollution and waste treatment-related issues – in the last three years.

Regulatory fines and penalties



Source: CRISIL Research

ESG scores of the top 225 companies

Company name	Sector	E score	S score	G score	ESG score
3M India Ltd	Engineering and capital goods	47	48	73	58
Aarti Industries Ltd	Chemicals	48	56	64	56
Aavas Financiers Ltd	Financial	62	57	69	64
ABB India Ltd	Engineering and capital goods	39	50	71	55
Abbott India Ltd	Pharmaceuticals	55	54	70	61
ACC Ltd	Cement	50	57	69	59
Adani Gas Ltd	Oil and gas	30	44	69	49
Adani Green Energy Ltd	Power	71	54	58	62
Adani Power Ltd	Power	48	53	57	53
Adani Transmission Ltd	Power	63	57	62	61
Aditya Birla Capital Ltd	Financial	66	57	65	63
Aia Engineering Ltd	Engineering and capital goods	48	52	71	58
Ajanta Pharma Ltd	Pharmaceuticals	31	56	62	50
AkzoNobel India Ltd	Paints	36	47	70	52
Alembic Pharmaceuticals Ltd	Pharmaceuticals	37	55	68	54
Alkem Laboratories Ltd	Pharmaceuticals	33	49	73	53
Ambuja Cements Ltd	Cement	56	59	71	63
APL Apollo Tubes Ltd	Metals	31	43	65	47
Apollo Hospitals Enterprises Ltd	Healthcare	45	51	72	57
Ashok Leyland Ltd	Auto OEM	50	50	75	60
Asian Paints Ltd	Paints	60	54	78	66
AstraZeneca Pharma India Ltd	Pharmaceuticals	34	54	78	57
Atul Ltd	Chemicals	39	48	63	51
AU Small Finance Bank Ltd	Financial	60	59	76	66
Aurobindo Pharma Ltd	Pharmaceuticals	32	54	64	50
Axis Bank Ltd	Financial	68	66	77	71
Bajaj Auto Ltd	Auto OEM	40	48	71	54
Bajaj Finance Ltd	Financial	62	60	73	66
Bajaj Finserv Ltd	Financial	63	59	70	65
Bandhan Bank Ltd	Financial	62	67	72	67

Company name	Sector	E score	S score	G score	ESG score
Bank of Baroda	Financial	53	64	64	60
Bank of India	Financial	56	66	57	59
Bank of Maharashtra	Financial	59	56	62	60
Bayer Crop Science Ltd	Chemicals	33	49	67	50
Berger Paints India Ltd	Paints	40	51	74	56
Bharat Dynamics Ltd	Engineering and capital goods	41	48	53	47
Bharat Electronics Ltd	Engineering and capital goods	46	47	57	51
Bharat Forge Ltd	Auto ancillary	56	57	55	56
Bharat Heavy Electricals Ltd	Engineering and capital goods	37	45	55	46
Bharat Petroleum Corporation Ltd	Oil and gas	52	58	64	59
Biocon Ltd	Pharmaceuticals	37	52	72	55
Birla Corporation Ltd	Cement	26	39	66	45
Bosch Ltd	Auto ancillary	44	56	65	55
Britannia Industries Ltd	FMCG	41	54	70	56
Cadila Healthcare Ltd	Pharmaceuticals	32	57	70	54
Canara Bank	Financial	48	71	62	59
Castrol India Ltd	Lubricants	38	57	74	57
Central Bank Of India	Financial	56	65	57	59
CESC Ltd	Power	41	52	66	54
Chambal Fertilisers & Chemicals Ltd	Chemicals	41	47	62	51
Cholamandalam Financial Holdings Ltd	Financial	62	55	67	62
Cholamandalam Investment And Finance Company Ltd	Financial	56	60	71	63
Cipla Ltd	Pharmaceuticals	51	57	74	62
City Union Bank Ltd	Financial	60	65	63	62
Coal India Ltd	Mining	34	49	48	43
Coforge Ltd	IT	41	63	79	62
Colgate-Palmolive (India) Ltd	FMCG	41	48	76	57
Coromandel International Ltd	Chemicals	27	62	70	53
CreditAccess Grameen Ltd	Financial	62	62	72	66
Cummins India Ltd	Engineering and capital goods	55	40	65	55
Dabur India Ltd	FMCG	52	51	67	57
Dalmia Bharat Ltd	Cement	49	53	62	55
Deepak Nitrite Ltd	Chemicals	22	51	68	48

Company name	Sector	E score	S score	G score	ESG score
Divi's Laboratories Ltd	Pharmaceuticals	40	57	66	55
DLF Ltd	Real estate	62	53	65	61
Dr Lal Pathlabs Ltd	Healthcare	47	61	72	60
Dr Reddy's Laboratories Ltd	Pharmaceuticals	57	53	76	63
Eicher Motors Ltd	Auto OEM	51	48	64	55
Emami Ltd	FMCG	44	57	59	53
Endurance Technologies Ltd	Auto ancillary	37	49	71	54
Engineers India Ltd	Engineering and capital goods	46	45	59	51
Eris Lifesciences Ltd	Pharmaceuticals	31	48	67	50
Escorts Ltd	Auto OEM	48	41	70	55
Federal Bank Ltd	Financial	57	66	74	66
Fine Organic Industries Ltd	Chemicals	23	48	67	47
Fortis Healthcare Ltd	Healthcare	43	66	47	50
GAIL (India) Ltd	Oil and gas	56	63	61	60
Galaxy Surfactants Ltd	Chemicals	41	54	66	54
Gillette India Ltd	FMCG	43	35	65	50
GlaxoSmithKline Pharmaceuticals Ltd	Pharmaceuticals	31	46	74	52
Glenmark Pharmaceuticals Ltd	Pharmaceuticals	52	54	69	59
Godfrey Phillips India Ltd	FMCG	38	29	51	41
Godrej Agrovet Ltd	FMCG	41	50	72	56
Godrej Consumer Products Ltd	FMCG	65	59	77	68
Godrej Properties Ltd	Real estate	60	51	71	62
Granules India Ltd	Pharmaceuticals	36	52	69	53
Graphite India Ltd	Metals	24	47	63	45
Grasim Industries Ltd	Diversified	57	57	71	63
Grindwell Norton Ltd	Engineering and capital goods	53	39	66	55
Gujarat Gas Ltd	Oil and gas	30	49	62	48
Gujarat State Petronet Ltd	Oil and gas	30	41	65	47
Hatsun Agro Products Ltd	FMCG	38	49	63	51
HCL Technologies Ltd	IT	55	63	80	67
HDFC Bank Ltd	Financial	65	69	82	73
HDFC Ltd	Financial	65	67	81	72
HeidelbergCement India Ltd	Cement	38	38	73	52
Hero Motocorp Ltd	Auto OEM	55	56	71	62
Hindalco Industries Ltd	Metals	47	57	74	60
Hindustan Aeronautics Ltd	Engineering and capital goods	48	46	58	51

Company name	Sector	E score	S score	G score	ESG score
Hindustan Petroleum Corporation Ltd	Oil and gas	51	59	58	56
Hindustan Unilever Ltd	FMCG	54	49	80	63
Hindustan Zinc Ltd	Metals	49	56	59	55
Honeywell Automation India Ltd	Engineering and capital goods	42	50	73	56
Housing & Urban Development Corporation Ltd	Financial	63	62	50	57
ICICI Bank Ltd	Financial	62	69	78	70
IDBI Bank Ltd	Financial	51	65	56	56
IDFC First Bank Ltd	Financial	57	57	80	66
India Cements Ltd	Cement	27	41	44	37
Indiabulls Housing Finance Ltd	Financial	62	55	57	58
Indiamart Intermesh Ltd	Internet	54	42	75	59
Indian Oil Corporation Ltd	Oil and gas	44	69	65	59
Indian Overseas Bank	Financial	59	62	55	58
Indraprastha Gas Ltd	Oil and gas	31	44	75	52
IndusInd Bank Ltd	Financial	72	69	73	72
Infibeam Avenues Ltd	Internet	50	46	43	46
Info Edge (India) Ltd	Internet	59	53	73	63
Infosys Ltd	IT	86	68	81	79
Ipca Laboratories Ltd	Pharmaceuticals	31	44	61	46
ITC Ltd	FMCG	65	46	69	62
J B Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	35	46	62	49
JK Cement Ltd	Cement	47	58	61	55
Jindal Steel & Power Ltd	Metals	34	45	51	43
JK Lakshmi Cement Ltd	Cement	33	36	68	48
JSW Energy Ltd	Power	43	48	65	53
JSW Steel Ltd	Metals	47	56	69	58
Jubilant Pharmova Ltd	Pharmaceuticals	45	50	61	53
Just Dial Ltd	Internet	54	47	66	57
Jyothy Labs Ltd	FMCG	38	50	67	53
Kansai Nerolac Paints	Paints	69	64	70	68
Kotak Mahindra Bank Ltd	Financial	74	63	81	74
L&T Finance Holdings Ltd	Financial	81	56	74	72
L&T Technology Services Ltd	IT	41	61	76	60
Larsen & Toubro Infotech Ltd	IT	70	66	76	71
Larsen & Toubro Ltd	Engineering and capital goods	62	60	75	67
Laurus Labs Ltd	Pharmaceuticals	47	50	68	56

Company name	Sector	E score	S score	G score	ESG score
LIC Housing Finance Ltd	Financial	62	58	72	65
Lupin Ltd	Pharmaceuticals	42	49	65	53
Mahanagar Gas Ltd	Oil and gas	30	47	72	51
Mahindra & Mahindra Financial Services Ltd	Financial	72	62	77	72
Mahindra & Mahindra Ltd	Auto OEM	63	59	78	68
Manappuram Finance Ltd	Financial	62	68	65	65
Marico Ltd	FMCG	67	57	79	69
Maruti Suzuki India Ltd	Auto OEM	54	56	69	60
Metropolis Healthcare Ltd	Healthcare	42	60	73	59
Minda Industries Ltd	Auto ancillary	37	53	65	52
Mindtree Ltd	IT	84	69	76	77
Motherson Sumi Systems Ltd	Auto ancillary	39	58	64	54
Mphasis Ltd	IT	46	54	73	59
Muthoot Finance Ltd	Financial	63	58	67	63
Natco Pharma Ltd	Pharmaceuticals	52	56	65	58
National Aluminium Co Ltd	Metals	41	49	53	48
Navin Fluorine International Ltd	Chemicals	26	56	64	49
NBCC (India) Ltd	Engineering and capital goods	44	40	55	47
Nestle India Ltd	FMCG	47	57	75	61
NHPC Ltd	Power	65	62	56	61
NMDC Ltd	Mining	42	49	52	48
NTPC Ltd	Power	44	62	62	56
Oberoi Realty Ltd	Real estate	48	44	62	52
Oil and Natural Gas Corporation Ltd	Oil and gas	36	54	59	50
Oil India Ltd	Oil and gas	25	55	62	47
Oracle Financial Services Software Ltd	IT	42	63	76	61
Petronet LNG Ltd	Oil and gas	30	47	72	51
Pfizer Ltd	Pharmaceuticals	34	41	68	49
PI Industries Ltd	Chemicals	30	56	69	52
Pidilite Industries Ltd	FMCG	49	58	69	59
Power Finance Corporation Ltd	Financial	41	64	61	55
Power Grid Corporation of India Ltd	Power	56	59	64	60
Prestige Estates Projects Ltd	Real estate	36	40	65	49
Procter & Gamble Health Ltd	FMCG	40	42	75	55

Company name	Sector	E score	S score	G score	ESG score
Procter & Gamble Hygiene and Health Care Ltd	FMCG	46	38	64	51
Punjab National Bank	Financial	57	67	48	56
Radico Khaitan Ltd	FMCG	44	34	62	49
Ratnamani Metals & Tubes Ltd	Metals	28	44	64	47
RBL Bank Ltd	Financial	65	60	67	65
REC Ltd	Financial	42	71	55	54
Reliance Industries Ltd	Diversified	49	64	77	64
Ruchi Soya Industries Ltd	FMCG	38	41	56	46
Sanofi India Ltd	Pharmaceuticals	31	49	71	52
SBI Cards And Payment Services Ltd	Financial	63	50	76	65
Schaeffler India Ltd	Auto ancillary	46	51	69	56
Shree Cements Ltd	Cement	54	58	67	60
Shriram Transport Finance Co Ltd	Financial	56	67	71	65
Shriram City Union Finance Ltd	Financial	62	65	72	67
Siemens Ltd	Engineering and capital goods	50	57	69	59
SJVN Ltd	Power	61	55	65	61
SKF India Ltd	Auto ancillary	47	59	65	57
SRF Ltd	Chemicals	25	47	74	50
Star Cement Ltd	Cement	27	37	57	41
State Bank of India	Financial	63	72	73	69
Steel Authority of India Ltd	Metals	47	64	63	58
Sumitomo Chemical India Ltd	Chemicals	33	48	70	52
Sun Pharmaceutical Industries Ltd	Pharmaceuticals	37	52	45	44
Sundaram Finance Ltd	Financial	56	56	71	62
Sundram Fasteners Ltd	Auto ancillary	33	49	64	50
Syngene International Ltd	Pharmaceuticals	46	59	80	63
Tata Chemicals Ltd	Chemicals	50	59	76	63
Tata Communications Ltd	Telecom	67	62	64	64
Tata Consultancy Services Ltd	IT	68	70	83	75
Tata Consumer Products Ltd	FMCG	61	54	79	66
Tata Motors Ltd	Auto OEM	51	54	76	62
Tata Power Co Ltd	Power	61	60	77	67
Tata Steel Ltd	Metals	49	61	75	62
Tech Mahindra Ltd	IT	77	66	78	75
The Phoenix Mills Ltd	Real estate	45	40	63	51

Company name	Sector	E score	S score	G score	ESG score
The Ramco Cements Ltd	Cement	29	40	62	45
Thermax Ltd	Engineering and capital goods	46	45	72	56
Torrent Pharmaceuticals Ltd	Pharmaceuticals	32	49	67	50
Torrent Power Ltd	Power	42	53	67	55
Tube Investments of India Ltd	Auto ancillary	33	48	74	53
TVS Motor Company Ltd	Auto OEM	47	46	78	59
UCO Bank	Financial	51	62	55	55
Ujjivan Small Finance Bank Ltd	Financial	62	54	65	61
Ultratech Cement Ltd	Cement	50	61	72	61
Union Bank Of India	Financial	51	69	55	57
United Breweries Ltd	FMCG	41	38	65	50
United Spirits Ltd	FMCG	48	40	72	56
UPL Ltd	Chemicals	56	65	59	59
Varun Beverages Ltd	FMCG	41	37	63	49
Vinati Organics Ltd	Chemicals	26	45	72	49
Vodafone Idea Ltd	Telecom	36	46	40	40
VST Industries Ltd	FMCG	38	36	71	51
WABCO India Ltd	Auto ancillary	46	57	61	55
Wipro Ltd	IT	75	65	80	75
Yes Bank Ltd	Financial	62	63	58	61
Zydus Wellness Ltd	FMCG	38	36	73	52

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