

DIGITAL FINANCE AND FINANCIAL INCLUSION



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IMPACT OF ESG (ENVIRONMENTAL, SOCIAL, GOVERNANCE) FACTORS ON STOCK PERFORMANCE IN INDIA

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ABSTRACT

This study investigates the impact of Environmental, Social, and Governance (ESG) factors on the equity performance of Indian companies from 2020 to 2024, with a focus on sectoral variations in ESG adoption. The growing significance of ESG practices in corporate strategy is explored within the context of regulatory frameworks, particularly the Business Responsibility and Sustainability Reporting (BRSR) guidelines introduced by the Securities and Exchange Board of India (SEBI). The research examines the extent to which ESG performance influences stock prices and evaluates the role of sustainability in enhancing financial stability and long-term value creation. Findings indicate that sectors such as cement and metals, which face stricter regulatory oversight, have shown greater responsiveness to ESG mandates. In contrast, industries like banking and real estate continue to lag in ESG integration. Interestingly, the study reveals that higher ESG scores do not always correlate with stock price appreciation, suggesting that other market variables significantly influence equity valuations. However, companies with consistent ESG practices—such as Infosys Ltd. and Hindustan Unilever Ltd.—demonstrate stronger market resilience and investor trust, reinforcing the long-term benefits of ESG alignment. The research also highlights a perceptible shift in investor behavior, with increasing preference for firms that prioritize ethical governance and sustainable practices. As ESG disclosures become more standardized and transparent, they are expected to play a more influential role in shaping corporate performance and influencing the financial ecosystem of India. For companies, this represents both a strategic opportunity and a challenge—to align profitability with sustainability imperatives.

Keywords: *Environmental, Social, and Governance, Financial stability and stock.*

INTRODUCTION

Environmental, Social, and Governance (ESG) factors have become pivotal in reshaping traditional investment paradigms, highlighting the growing importance of sustainability, ethical corporate conduct, and effective governance. Globally, ESG principles are increasingly recognized as essential components that influence long-term financial performance and risk management. In India, the rising emphasis on ESG-focused investments reflects the country's commitment to aligning with international sustainability agendas while addressing its unique socio-economic and environmental challenges.

The regulatory environment in India has played a significant role in accelerating ESG adoption. The Securities and Exchange Board of India (SEBI) introduced the Business Responsibility and Sustainability Reporting (BRSR) framework, mandating ESG disclosures for the top 1,000 listed companies. Rolled out in phases since 2021, this regulatory measure seeks to enhance corporate transparency, accountability, and sustainable business practices. As a result, ESG compliance has transitioned from being a voluntary ethical consideration to a strategic imperative for Indian enterprises.

Globally, empirical evidence suggests that companies with strong ESG profiles demonstrate greater resilience and often outperform their peers in terms of financial stability and market valuation. This is particularly pertinent for India, where a dynamic economic landscape coupled with multifaceted challenges creates a complex investment environment. The COVID-19 pandemic further accentuated the value of ESG compliance, with ESG-conscious companies showing superior adaptability and risk mitigation during periods of uncertainty.

This study aims to analyze the impact of ESG factors on the stock market performance of Indian companies between 2020 and 2024. It seeks to unravel the extent to which ESG integration influences financial outcomes, providing valuable insights into the evolving relationship between sustainability practices and market performance within the context of an emerging economy.

LITERATURE REVIEW

1. **Singh & Singh (2024)** examine the impact of ESG factors on firm profitability in India using data from 23 companies between 2015 and 2020. Applying a dynamic panel method, their study finds that while short-term effects of ESG on profitability are inconclusive, robust governance mechanisms significantly influence long-term financial performance by aligning sustainability with profitability. The authors emphasize the need for institutional reforms to strengthen governance and unlock ESG's economic benefits in emerging markets like India.

2. **Kulal, Nanjudaswamy, Dinesh, & S (2023)** analyze ESG's influence on stock prices and investment performance through secondary data. Their results demonstrate that companies with stronger ESG performance generally enjoy higher stock valuations and superior investment returns, maintaining statistical significance after controlling for firm size, profitability, and industry factors.

RESEARCH OBJECTIVES

- ◆ To analyze the relationship between ESG scores and the stock performance of Indian companies.
- ◆ To evaluate the sector-wise impact of ESG factors on stock prices across different industries in India.

FINDINGS

1. **ESG Awareness Varies Significantly by Sector** the analysis reveals notable differences in ESG adoption across sectors. The Cement and Metal sector recorded the highest average ESG score (43.89), driven by increasing environmental regulations and societal pressure due to their substantial carbon footprint. In contrast, the Banking and Financial Services sector exhibited a lower average ESG score (31.18), reflecting comparatively lower regulatory pressures and a lesser urgency to adopt sustainability practices. This disparity highlights that ESG integration is highly sector-dependent, influenced by operational impacts, market expectations, and regulatory scrutiny.
2. **Higher ESG Scores Do Not Always Align with Higher Stock Prices** The study found no straightforward linear relationship between ESG scores and stock prices. For example, the FMCG sector, despite having a moderate ESG average (34.42), showed relatively high average stock prices (₹1,477.11), likely supported by strong brand equity and stable consumer demand. Conversely, the Cement and Metal sector, with its high ESG score, experienced significant stock price volatility. This indicates that while ESG is a critical long-term metric, short-term stock valuations are also shaped by broader financial and market dynamics.
3. **Companies with Higher ESG Ratings Tend to Be More Resilient and Reputable** Companies like Infosys Ltd, Wipro Ltd, and Hindustan Unilever Ltd consistently exhibit high ESG performance alongside steady stock market growth. Their success stems from robust corporate governance, transparent reporting, and strong stakeholder trust. High ESG ratings enhance their brand reputation, reduce risk exposure, and attract long-term investors, supporting the view that ESG commitment strengthens business continuity and investor confidence.

4. ESG Disclosure and Reporting Remain Inconsistent a significant challenge is the lack of standardized ESG reporting, particularly among mid-cap companies and sectors such as real estate and automobile. Many firms either omit ESG disclosures or provide data in inconsistent formats, complicating comparability and assessment of sustainability performance. This opacity diminishes ESG's effectiveness as an investment criterion and may erode investor trust, especially when companies face scrutiny over environmental or social concerns.
5. Investors and Stakeholders Are Increasingly Considering ESG there is clear evidence that ESG considerations are becoming integral to investment strategies. Investors increasingly prefer companies with strong ESG profiles, even if short-term returns are not always maximized. This shift reflects the global rise of ethical investing and heightened corporate responsibility awareness. Companies aligned with ESG expectations are better positioned to attract capital, build stakeholder relationships, and maintain long-term competitiveness in a rapidly evolving market landscape.

CONCLUSION

This research set out to examine the correlation between ESG performance and stock price behavior among selected Indian companies across diverse sectors. The study provides a comprehensive analysis of how ESG factors are adopted and reported within India's corporate landscape, and whether these sustainability metrics influence stock market outcomes.

The findings reveal that while ESG awareness is on the rise, its adoption remains uneven across sectors. Environmentally sensitive industries such as Cement and Metal demonstrate stronger ESG commitments, driven by regulatory pressures and stakeholder scrutiny. Conversely, sectors like Banking and Real Estate lag behind in ESG integration and disclosure practices.

Importantly, the research indicates that higher ESG scores do not consistently translate to higher average stock prices, highlighting that market valuations are influenced by multiple factors beyond ESG alone. However, companies with consistently high ESG performance—such as Infosys Ltd and Hindustan Unilever Ltd—exhibit greater market stability, stronger brand equity, and higher investor confidence. This supports the view that sustainability contributes significantly to long-term business resilience.

A critical insight from the study is the inconsistency and lack of standardization in ESG reporting, particularly among mid-cap firms and certain sectors. This reporting gap limits the effectiveness of ESG as a universal investment metric and poses challenges for investor evaluation. Nonetheless, there is growing evidence of shifting investor preferences toward ESG-conscious investments, reflecting an increasing prioritization of responsible and ethical business practices.

In conclusion, ESG is emerging as an important dimension in evaluating corporate performance, particularly concerning long-term value creation and stakeholder trust. While ESG may not yet be the sole driver of stock price performance, its influence on investor perception and strategic corporate decision-making is undeniable. As ESG reporting becomes more standardized and widely adopted, it is poised to play an even greater role in India's financial markets—presenting both challenges and opportunities for companies striving to balance profitability with sustainability.

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