CareEdge-ESG's view on

Evolving ESG Landscape: Is Corporate India equipped?

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CareEdge ESG RATINGS

A subsidiary of CARE Ratings Limited

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Strategic Imperative Around ESG

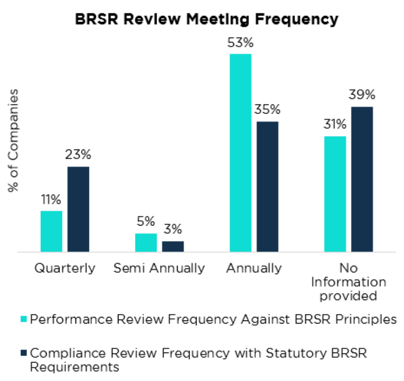
ESG Landscape in India

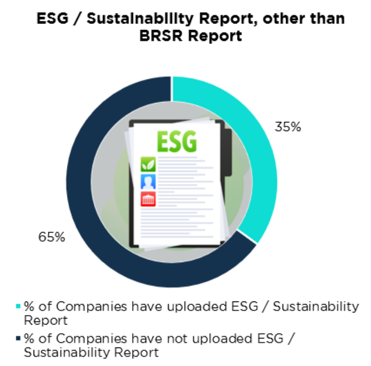
- Hon'ble Prime Minister, Shri Narendra Modi, in December 2023, launched an initiative, Lifestyle for Environment (LiFE), in collaboration with the UN Secretary-General António Guterres. This mission aligns with UN-SDGs and calls for individual action as well as global collaboration to foster a sustainable future for the entire planet.
- India announced its Panchamrit goals at COP26, which outlines five key aspects:
    - 500 GW of non-fossil energy capacity by 2030
    - 50% energy from renewables by 2030
    - Reduction in carbon emissions by 1 billion tonnes by 2030
    - 45% Reduction in carbon intensity over 2005 levels by 2030
    - Net zero by 2070
- In 2022, the Ministry of Finance announced India's First Sovereign Green Bonds (SGBs) Framework to attract capital towards eligible green projects. In FY24, the government raised Rs 21,000 crore of SGBs and the budgeted estimate for FY26 is Rs 25,000 crore.
- In April 2023, the RBI introduced a framework for banks and deposit-taking NBFCs to accept 'green deposits,' which are interest-bearing deposits earmarked for funding the environmentally friendly projects.
- In 2023, the IFSCA also issued a framework for sustainable finance. Another innovation incentive announced by GIFT City is the 'Regulatory Sandbox for Sustainable Finance' which provides FinTech entities a secure environment to develop and test innovative sustainable finance solutions.

- In February 2024, the RBI announced a draft for banks and other regulated entities for making disclosures regarding climate related risks.
- Most recently in October 2024, the RBI announced the creation of a database known as Climate Risk Information System (RB-CRIS) to bridge the gap in climate risk data availability, which is currently fragmented and lacks standardisation.
- The government is also toying the idea of creating a Nation Green Financing Institute, to aggregate green capital from various sources and reduce the cost of capital for climate-focused projects.
- In November 2024, the government announced its commitment to roll out a Carbon Credit Trading Scheme, under two mechanisms – compliance and offset.
- In December 2024, the Government of India announced a taxonomy of green steel, India being the 1st nation to unveil such a taxonomy. Globally, there is no commonly accepted definition of green steel.
- The government has introduced Green Credits Programme, wherein green credits are awarded for activities like afforestation, sustainable agriculture, and water management, which can be traded on a domestic platform.
- Green Skill Development Program has been launched by the Ministry of Environment for developing green skills amongst the youth.
- The government has also notified changes to the Ecomark scheme of 1991. The scheme relates to labelling of eco-friendly products. The Bureau of Indian Standards (BIS) has laid down a list of requirements for a product to be qualified under the Ecomark scheme. These include many attributes like safety, quality, environmental impact, etc.

Board Oversight on ESG[1]

CareEdge-ESG has conducted an analysis on 102 companies from diversified sectors including heavy electricals, power, metals & mining, cables, banks and NBFC. Key findings below:

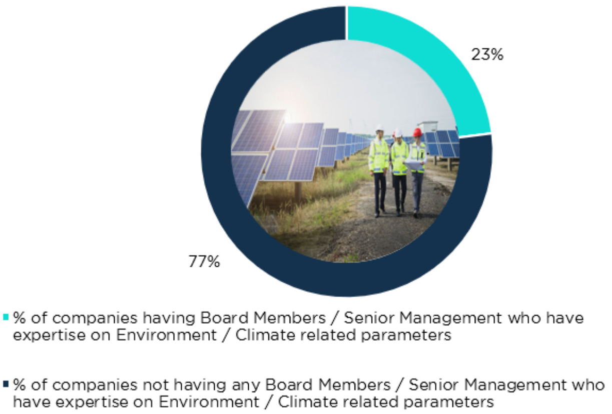




While most companies review BRSR compliance and performance on an annual basis, the best practice is to conduct these reviews quarterly. Fewer companies have published ESG materiality matrix or uploaded ESG/Sustainability reports, indicating room for improvement in transparency. and strategic focus on ESG issues.

[1] Universe consists of selected 102 companies from sectors including heavy electricals, power, metals & mining, cables, banks and NBFC.

Expertise on Environment / Climate related parameters

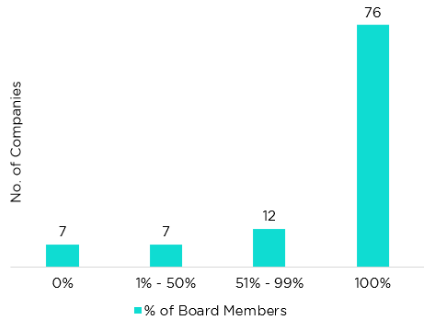


Expertise on Social related parameters

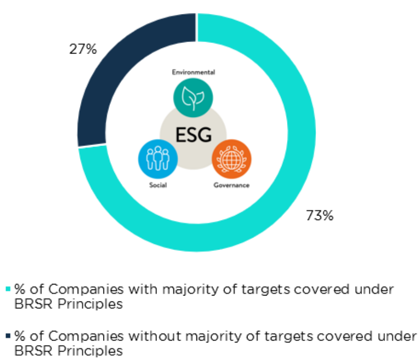
Significant gap exists in leadership on both environmental and social parameters, which could limit companies' ability to effectively address and integrate ESG concerns into their strategic decision-making.

ESG / Sustainability Committee

Training Provided to Board Members on BRSR Principles



Company's Targets covered under BRSR Principles



Majority of companies have ESG/Sustainability Committees, well-trained board members on BRSR principles, and 73% of them have aligned most of their targets with BRSR principles.

Pathways to India's ESG Metamorphosis

Key Drivers of ESG/Sustainability

1. There has been a considerable push from various regulators to not only adopt best practices but also to start disclosing the various metrics.
2. A lot of global investors are going beyond the traditional Return on Investment (RoI) and are looking for sustainable and ethical investment opportunities.
3. Increasingly number of board members are now getting involved in formulating strategies that are resilient to the changes in the ESG environment. This is trickling down in the form of various policies and initiatives that are sustainability driven. In fact, a lot of Indian companies are carving out a separate designation for the Chief Sustainability Officer (CSO).
4. As we know, CSR is the foundation upon which ESG is built. In fact, ESG metrics can be used to refine CSR initiatives, ensuring that companies are focusing on the most impactful actions.
5. Various sustainability initiatives like lowering carbon footprint, lowering energy intensity etc. have a direct correlation with the operating costs which in turn leads to operating efficiency for organisations.

An-all-inclusive ESG Approach

1. Firstly - The focus of the organisation should not only be on the short-term advantages but on the long-term sustainability of the organisation.
2. It calls for a structured integration of ESG principles into your strategy and risk management, ensuring they flow through all departments and reach every stakeholder in the organisation.
3. Companies need to adopt environmental and social stewardship and embed sustainability across their value chain activities, particularly in the supply chains as this is often considered as the elephant in the room and companies find it most difficult to decarbonise.
4. This approach also requires critical focus on climate change mitigation & adaptation.

The Stumbling Blocks

1. There are knowledge gaps and limited awareness about sustainability. This is more so at the board level and senior management level. As we saw in the previous analysis, there is a dearth of environmental and social related expertise at the leadership level, and this often leads to a missing ESG driven strategic thinking by the board.
2. Most organisations have a short-sighted view on the direct tangible benefits and are ignorant about the long-term benefits of adoption of best ESG practices. And this principally stems from the cost that they associate with the implementation of these practices.
3. We have observed that there is limited engagement with the various stakeholders on sustainability issues. Now, unless there is constant and meaningful engagement with such stakeholders, organisations will not be able to identify the deeply rooted ESG concerns across their value chain.

The Journey Ahead

1. Firstly, the need of the hour, which we all are cognizant of, is an India specific taxonomy. This is needed to provide a clear framework classifying sustainable activities, and combating 'greenwashing'. Once we have a definition of credible sustainable activities, this can be used to incentivise green activities by the government in the form of reduced cost of capital.
2. The barriers to access blended-finance need to be addressed. These primarily include increasing awareness around blended-finance and facilitating access to concessional debt and equity.
3. To enable a wider adoption of sustainable linked products, the regulators need to introduce 'Greenium' into such products.
4. Besides, the government needs to create an entire ecosystem for fostering technological innovation, including climate tech, climate adaptation, etc.

Key Takeaways

1. Being responsible, finding growth opportunities, creating positive impact, and robust disclosures are the differentiators of the ESG leaders.
2. BRSR compliance has initially spearheaded the ESG agenda but now the ESG industry leaders leverage this to identify risks and opportunities. Hence this is no longer a cost imperative but an investment opportunity.
3. Organisational leadership is driving the ESG in boards of the larger companies and those with international presence. These companies have embraced and embedded ESG into their operations quite well including linking compensation to ESG driven KPI's. However, this impact is subdued in the smaller companies.
4. Water management, resource optimisation, and energy efficient programmes, are not only good for the environment but also for the business as it helps in reducing cost in the long run.
5. ESG-related information, including advertising and labeling, should be made more robust, as misleading claims could soon attract punitive action.
6. Green taxonomy can give rise to green lending which can be further included as a part of Priority Sector Lending.
7. Potential subsidies and incentives like Carbon Credits can incentivise the markets.
8. The RBI is taking a measured approach for the release of the final document against the 'Draft Disclosure framework on Climate-related Financial Risks', as they are assessing the readiness of the industry. Principally the challenges attributed are due to difference in size, reach, operations, data availability and quality of data. Although these are only a set of disclosure requirements, they will eventually nudge the sector to perform better.
9. RBI is working on various softer aspects including acquainting the board on the impact of climate risks on the financials, engagement with industry experts, etc.

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About Us:

CareEdge is a knowledge based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE ESG Ratings Limited (CareEdge-ESG) is one of the India's leading ESG rating provider fostering sustainability with ESG insights. With an aim of being a catalyst of change for a sustainable future with the most credible ESG assessments, CareEdge-ESG provides a 360-degree appraisal for the ESG performance benchmarking cum transition enabling ESG risk mitigation and enhanced decision-making capabilities for all stakeholders.