Corpsec Hotline

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ESG IN INDIAN COMPANIES: THINKING THROUGH THE SUSTAINABILITY LENS?

The emerging Environmental, Social and Governance (ESG) mandate in corporate governance presents a new challenge for companies in India. A stakeholder-driven approach, the ESG requirement facing each company is different and must be fine-tuned to suit the stakeholders with whom a company interfaces.[1] There cannot be an one-size fits all approach.

WHAT IS ESG AND ITS SIGNIFICANCE IN TODAY'S WORLD?

ESG norms require companies to be socially responsible businesses and align its wealth and value-creation activities with the interests of the larger group stakeholders, i.e. the employees, the environment, and society at large. This implies that shareholder-wealth maximization cannot externalize the larger environmental and social costs of doing business.

Though there are influential holdouts still against the trend towards ESG-focussed corporate governance[2], it would seem that the ESG mandate is becoming well-accepted globally. Indian companies such as Tech Mahindra, Infosys and Wipro are a part of the Dow Jones Sustainability Index (DJSI) which assesses the ESG performance of companies globally.[3] Historically, the companies which have been a part of the DJSI and follow healthy ESG practices have fared well on the Indian bourses.[4] This may be attributed to the fact that investors, both institutional and retail, wish to invest in companies which are seen to be more socially responsible.

Blue-chips stock such as Tata Consultancy Services (TCS)[5] and Reliance Industries[6] recently announced roadmaps towards reduction in greenhouse gas emissions towards zero. Investors too seem to have an appetite for innovative instruments to finance environmental and social initiatives. The Ghaziabad Municipal Corporation (GMC) raised INR 150 crores through the issue of green bonds and they are currently listed on the Bombay Stock Exchange.[7] GMC is using the funds for the construction of a tertiary treatment sewage plant. JSW Hydro Energy Limited has raised USD 707 million overseas through the issuance of USD denominated green bonds which are currently listed on the Singaporean Stock Exchange.[8]

HAVE THE LAWS KEPT UP WITH THE PARADIGM SHIFT?

The stakeholder focussed approach to corporate governance has for long been a distinctive factor of Indian corporate governance norms. The Companies Act, 2013, for instance, requires that the director of a company act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment[9]. The recent ruling by the Supreme Court in the *Tata-Mistry* dispute also brings to the fore the judicial view of companies having philanthropic objects and the positive spill-over effects for a larger stakeholder group outside the shareholder group. This can also be witnessed in the case of investor apprehensions faced by Vedanta Resources Limited in lieu of the company's breach of environmental norms.[10]

SEBI, the Indian Capital markets watchdog, recently came out with a circular on Business Responsibility and Sustainability Reporting by listed entities.[11] However, it is applicable only to the top 1000 listed companies by market capitalization. This is a paradigm shift from the erstwhile Business Responsibility Reporting (BRR) regime to Business Responsibility and Sustainability Report (BRSR) reporting regime. The foundation for the same has been the MCA's Report on Business Responsibility Reporting.[12] The MCA report has touted the BRSR to serve as "a single comprehensive source of non-financial sustainability information relevant to all business stakeholders – investors, shareholders, regulators, and public at large." Placing sustainability reporting on an equal footing with financial reporting is necessary especially due to India's third position in the emission of greenhouse gases after United States and China.[13] The key features of the circular are discussed below.

DISCLOSURE REQUIREMENTS

To adhere with the BRSR reporting requirements, the following disclosures are mandated by SEBI:

- The companies need to not only disclose the ESG risks faced by them but also the mitigation strategy for such risks. The financial implications of the same must be reported as well.
- The sustainability goals of the company and how it has performed in this regard.
- Environment related aspects such as green-house gas (GHG) emissions, waste management practices, quantum of waste generation, biodiversity, etc.
- Social related disclosures with respect to workforce of the company such as gender diversity, social diversity which is

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inclusive of measures for differently abled workers and employees, median wages, turnover rates, occupational health and safety, welfare benefits etc.

- Disclosures on social impact assessments, corporate social responsibility, rehabilitation and resettlement etc.
- Consumer related disclosures such as product labelling, product recall and consumer complaints related to data privacy, cyber security, etc.

The ESG model proposed by SEBI is in line with international standards such as Global Reporting Initiative,[14] Task Force on Climate related Financial Disclosures[15] and Sustainability Accounting Standards Board.[16] The regulatory initiative to push Indian businesses to account for externalities is heartening.

CONCLUSION

The need to conserve the environment has always been felt due to the permeation of adverse effects of climate change in our everyday lives. However, companies are now compelled to carry out such conservation activities due to the integration of ESG requirements in the investment habits of investors. There has been a shift in the mindset of investors since they now believe in impact investing,[17] i.e., not only the creation of wealth but also sustainable growth for their future generations. Therefore, it becomes pertinent for the boards of companies to take note of this and embed robust ESG practices to mitigate risks related to exploitation of workers, poor corporate governance and climate change.[18] Bloomberg has forecasted global ESG assets to hit $53 trillion by 2025.[19] Thus, failure of companies to comply with ESG standards might lead to loss of their ability to attract capital in the long run.

– Eshvar Girish, Supratim Guha & Harshita Srivastava

You can direct your queries or comments to the authors

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[1] https://www.cfainstitute.org/en/research/esg-investing

[2] https://www.etftrends.com/esg-channel/buffett-berkshire-hathaway-brush-off-esg-proposals/

[3] https://portal.csa.spglobal.com/survey/documents/DJSIComponentsWorld_2020_.pdf

[4] https://economictimes.indiatimes.com/markets/stocks/news/top-performing-esg-companies-in-india-how-are-their-stocks-faring/articleshow/79935953.cms

[5] TCS recently announced that it plans to reduce its GHG to the extent of 70 percent by 2025 and eventually drive it down to zero by 2030. https://www.business-standard.com/article/companies/tcs-aims-to-reduce-emissions-by-70-in-2025-bring-down-to-zero-by-2030-121060301206_1.html

[6] Reliance Industries announced plans to cut down on CO_2 emissions during its Annual General Meeting in 2020; https://www.businesstoday.in/current/corporate/mukesh-ambani-plans-to-cut-down-carbon-dioxide-emission-at-ril/story/410055.html

[7] https://economictimes.indiatimes.com/markets/stocks/news/ghaziabad-municipal-corp-lists-first-green-bonds/articleshow/81974055.cms?from=mdr

[8] https://www.financialexpress.com/market/jsw-hydro-energy-raises-rs-5187-crore-via-green-bonds/2250201/#:~:text=JSW%20Hydro%20Energy%20Ltd%2C%20a,oversubscribed%20more%20than%203.7%20times.

[9] Section 166(2) of the Companies Act, 2013.

[10] https://www.business-standard.com/article/companies/vedanta-resources-anti-green-image-may-hit-brand-scare-away-investors-118060600313_1.html

[11] https://www.sebi.gov.in/media/press-releases/may-2021/sebi-issues-circular-on-business-responsibility-and-sustainability-reporting-by-listed-entities-_50097.html

[12] https://www.mca.gov.in/Ministry/pdf/BRR_11082020.pdf

[13] https://ourworldindata.org/co2/country/india

[14] https://www.globalreporting.org/how-to-use-the-gri-standards/get-started-with-reporting/

[15] https://www.fsb-tcfd.org/

[16] https://www.sasb.org/

[17] http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research%20Papers/IMPACT_INVESTING_SIMPLIFIED_IN_INDIA.pdf

[18] https://www.natlawreview.com/article/environmental-social-and-corporate-governance-what-are-risks-really

[19] https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/

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