

# CareEdge-ESG Rating Methodology

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## Introduction

Environmental, Social, and Governance (ESG) ratings have become essential in the global investment landscape, driven by growing demand for sustainability and ethical considerations in decision-making. These ratings integrate various aspects of the company's disclosures, compliance, strategies, initiatives and performance across ESG areas into a single comprehensive score.

Establishing and effectively communicating clear ESG goals and targets significantly enhances the company's appeal to equity and debt investors. A strong ESG performance and demonstrated commitment to ESG principles bolster a company's brand presence and foster stakeholder loyalty. Moreover, a company with robust ESG credentials often finds greater opportunities to diversify its investor base and raise capital more efficiently.

In India, the importance of ESG is underscored by the Securities and Exchange Board of India's (SEBI) introduction of the Business Responsibility and Sustainability Reporting (BRSR) for the top thousand listed entities. This initiative standardises ESG disclosures, promoting transparency and accountability. In congruence with this, CARE ESG Ratings Limited's (CareEdge-ESG) ESG ratings provide stakeholders with an independent assessment of companies' ability to manage ESG-related risks through disclosures, policies and performance. CareEdge-ESG's comprehensive ESG rating score based on a hundred-point scale, considers the specific sustainability challenges associated with each sector and industry.

Moreover, CareEdge-ESG's ratings enable investors, lenders and stakeholders to focus on individual themes by providing a hundred-point scale for each of the three pillars of ESG: Environmental, Social and Governance. Additionally, these ratings include assessing companies' performance across dominant themes within each pillar, offering a comprehensive view of their ESG-related risks, opportunities and performance.

Globally, there is a push towards more regulated and transparent ESG ratings, crucial for building investor trust. However, data accuracy and quality remain ongoing concerns. Accurate ESG data fosters consistency and comparability among rated companies, enhancing trust in the ratings. In response to growing demands, several global regulatory actions have been taken. India has

implemented regulatory measures in 2022 following IOSCO recommendations on sustainability practices and disclosures in ESG investing. SEBI introduced regulations to enhance trust, prevent greenwashing, and ensure the methodological transparency and independence of rating agencies.

As ESG disclosures gain prominence, especially in the financial market, CareEdge-ESG's India-specific framework will support enhanced decision-making across stakeholders and contribute to the growth of the Indian economy.

## Overview

CareEdge-ESG employs a robust, objective and transparent methodology to assess companies across various industries & sectors. This methodology incorporates ~400 key indicators (KI) spread across twenty-four themes under the Environment (E), Social (S) and Governance (G) pillars. The purpose of this methodology note is to describe the CareEdge-ESG's rating framework and provide a step-by-step explanation of various components, and their weights used in the ESG scoring and modelling process.

CareEdge-ESG evaluates companies based on their ability to address ESG risks through policies, strategies, targets, initiatives, and performance. Companies are assigned an ESG score on a scale of 0-100, classified into 5 categories: Leadership, Strong, Adequate, Below Average, and Weak. For detailed definitions of ESG Ratings and their mapping to ESG Scores, please refer to *Annexure 2*.

CareEdge-ESG's ratings provide detailed Environmental, Social, and Governance pillar scores, each meticulously evaluated on a 100-point scale, alongside a single comprehensive ESG score. This dual-layered approach emphasizes not only the overall ESG performance but also offers deep insights into the specific areas of strength and concern within each pillar. By revealing the underlying pillar level weights and assessing all the themes based on their relative importance, this methodology grants investors, lenders, and stakeholders a thorough and nuanced understanding of a company's commitment to sustainable practices. This enables more targeted and informed investment decisions, leveraging both the granular detail of pillar-specific scores and the holistic view afforded by the comprehensive score.

An additional feature of CareEdge-ESG's Rating model is its Transparency score, which is evaluated based on company's public disclosures. This assessment focuses on KIs that are deemed 'critical' or 'good to have' by CareEdge-ESG. Furthermore, CareEdge-ESG extends its evaluation to consider the transparency level concerning 'essential' & 'leadership' indicators as outlined under BRSR. This robust assessment framework not only underscores the depth of company's transparency but also enhances stakeholder confidence in the relevance of the ESG ratings provided by CareEdge-ESG.

## Evaluation Criteria

When evaluating a company's ESG performance, CareEdge-ESG focuses on several critical factors:

- The level and quality of disclosures
- The level of compliance, with relevant legal, regulatory and industry-specific ESG parameters
- The robustness of policies and targets as articulated through annual disclosures
- The effectiveness of strategies in attaining desired outcomes
- The impact of initiatives on key material performance and risk indicators
- The velocity of transition on key E, S and G parameters

The model captures ESG risk-based parameters and considers the softer aspects of ESG impact-based outcomes. It is highly responsive to sectoral nuances. For example, greenhouse gas (GHG) emissions are highly significant for an energy company compared to an insurance provider. Similarly, product stewardship is crucial for an FMCG company compared to a bank. The various levers in the different sector models enable the capture of these fine aspects.

## Data Sources & Rating Approach

In addition to the company provided data,<sup>1</sup>, CareEdge-ESG utilizes data from various sources, including company websites, sustainability and BRSR reports, press releases, investor presentations, and data reported by industry associations, regulators and government organizations. The latest available data in the public domain is used for peer review and benchmarking. CareEdge-ESG regularly monitors its rated portfolio for material developments and controversies.

CareEdge-ESG engages directly with the companies (issuers) it evaluates, establishing dialogues with senior management and sustainability leaders. These discussions aim to clarify publicly available data and delve deeper into each company's ESG philosophy, strategies, initiatives, targets and performance. This comprehensive engagement process enables CareEdge-ESG to incorporate qualitative judgment into its evaluations, ensuring that the ESG dataset is interpreted accurately and contextually. Such interactive assessments enhance the precision of ratings and enable a thorough understanding of a company's dedication to ESG principles.

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<sup>1</sup> A list of indicative information required for ESG rating exercise is attached in *Annexure 1*

CareEdge-ESG's Rating model is designed to minimize the element of subjective judgment in the overall ESG scores, through an objective and structured approach. Subjective assessments within the model are rigorously debated by industry experts through a robust rating committee process. This methodical scrutiny ensures that every aspect of the ESG rating is grounded in expert consensus and reflects a balanced view, enhancing the reliability and credibility of its ratings.

## **Application and Use**

The CareEdge-ESG's ratings are designed to help corporations, investors, and other stakeholders evaluate a company's ESG performance. In this context, ESG performance refers to a company's ability to ensure compliance, report and manage ESG risks, create positive social and environmental impacts, and leverage opportunities for sustainable development.

Issuers can use these ratings to benchmark their performance against peers and monitor their ESG progress. Investors, lenders and other stakeholders can use the ratings for various purposes, including value investing, portfolio balancing, assessing environmental risks, transparency and ethical standards.

## **Scoring Framework**

India's ESG and sustainability landscape is shaped by a combination of laws, regulations, guidelines, standards, and initiatives<sup>2</sup>. These frameworks aim to ensure that businesses operate responsibly, considering their environmental and social impact, and adhering to governance best practices. CareEdge-ESG's evaluation is based on a mix of sector-agnostic and sector-specific indicators that are constructed keeping in mind the Indian specifications, standards, laws, regulations, and guidelines as well as global best practices. Key indicators are selected from frameworks such as BRSR, Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), and Science Based Targets Initiative (SBTi). In CareEdge-ESG's rating model, the indicators are based not only on BRSR and global reporting standards but also derived from the Companies Act, LODR and various other Indian laws, regulations and standards covering environment and sustainability, making the model highly specific to India.

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<sup>2</sup> For example, The Companies Act, 2013, Securities & Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR), Air (Prevention & Control of Pollution) Act, 1986, Water (Prevention and Control of Pollution) Act, 1974, Hazardous Waste (Management Handling and Transboundary Movement) Rules, 2016, Bureau of Indian Standards, ISO Standards, RBI regulations and Sector specific regulations



The CareEdge-ESG's rating framework combines baseline indicators<sup>3</sup> that are common across sectors along with sector-specific indicators, particularly in the Environmental and Social pillars. Examples of some sector-specific indicators are given in *Annexure 3*

A bottom-up approach is used for assigning weights at the KI level, normalizing scores at the theme level, and standardizing scores through z-score comparisons, relative rankings and industry benchmarks. This method ensures the model is sector-agnostic and enables relative comparisons of companies based on their scores<sup>4</sup>.

CareEdge-ESG's rating model integrates multiple facets of ESG performance, ensuring that each score reflects industry-specific nuances and broader sustainability trends. ESG criteria have become essential metrics for evaluating the sustainability and ethical impact of companies. Investors, regulators and stakeholders increasingly rely on these criteria to make informed decisions.

## Scope

This methodology and framework apply to the entities listed on Indian stock exchanges. The methodology considers the information provided by the Issuer<sup>5</sup> as well as the information available in the public domain<sup>6</sup>. While the framework is common across industries and sectors, the materiality of key indicators and weights across pillars and themes vary significantly between the services and manufacturing sectors. The broad range of weights across pillars and key themes for different sectors is highlighted in *Annexure 4*.

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<sup>3</sup> Baseline indicators include almost all KIs under the Governance pillar and few from Environmental and Social pillars

<sup>4</sup> While the model is sector agnostic, allowing for the comparison of scores of companies across different sectors, the interpretation of these scores must consider the relative importance of ESG themes and pillars specific to each sector.

<sup>5</sup> CareEdge ESG considers both the assured as well as non-assured data

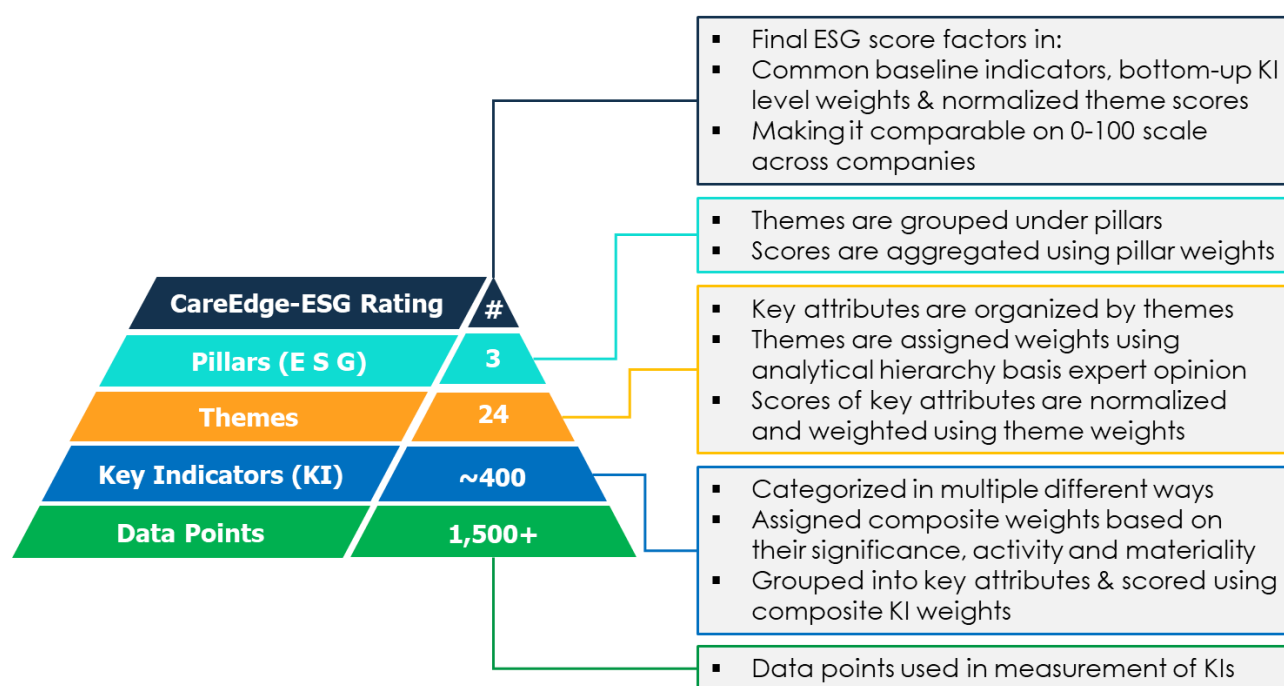
<sup>6</sup> Data available in public domain is used for peer review and benchmarking

## ESG Rating Framework

### Scoring Structure

At its core, the CareEdge-ESG rating comprises three main pillars: the Environmental Pillar, the Social Pillar, and the Governance Pillar. These three pillars are further divided into 24 themes, and ~400 key indicators. The hierarchical structure of CareEdge-ESG's rating model depicted in Exhibit 1 illustrates the number of themes, key indicators and data points used in the scoring process.

Exhibit 1: Bottom-up Approach for ESG Rating



Each KI within CareEdge-ESG's rating framework is categorized in multiple ways to enable detailed assessments and the generation of diverse analytical outputs. Each indicator is evaluated and scored based on objective and consistent scoring guidelines accompanied by clearly defined performance criteria. Each indicator is assigned two types of weights – activity weight and materiality weight. These two are combined to obtain a composite weight for each key indicator. This process is described in detail later in this document.

Although most indicators are consistent across industries, their weights vary depending on their

significance and materiality to a particular sector<sup>7</sup>. The KIs of companies within the same industry are assigned identical weights, enhancing the comparability of sector-specific ESG factors. For example, the key indicators in CareEdge ESG's rating model related to extended producer responsibility have the same weight for all the companies in the automobile industry, whereas they have different (lower weight) for all the companies in the real estate industry.

Following the scoring of each KI, CareEdge-ESG calculates the composite weighted scores using the composite weight of each KI. The composite weight reflects the significance and materiality of each KI within the sector, embedding the key industry/sector-level nuances into the assessment process from the start.

These weighted KI scores are grouped into relevant attributes & themes, and their scores are aggregated to arrive at the total score for each theme. To ensure comparability across themes, these scores are normalized and multiplied by the respective theme weights to generate theme-weighted pillar scores. These scores are further multiplied by the pillar weights to yield the final ESG score on a 0–100 scale.

The key indicators are categorized under various headings based on their characteristics such as key activities, materiality, sources, and prioritization. The rationale and methodology behind this structured approach are elaborated in the subsequent section.

## **Key Indicator Categorization**

CareEdge-ESG utilizes a multifaceted approach to categorize KIs, enhancing the quality and relevance of the outputs in its rating reports. The categorization is detailed in Exhibit 2 to Exhibit 4, highlighting the indicators by their activity, materiality, sources, and priority.

### **KI by Activity**

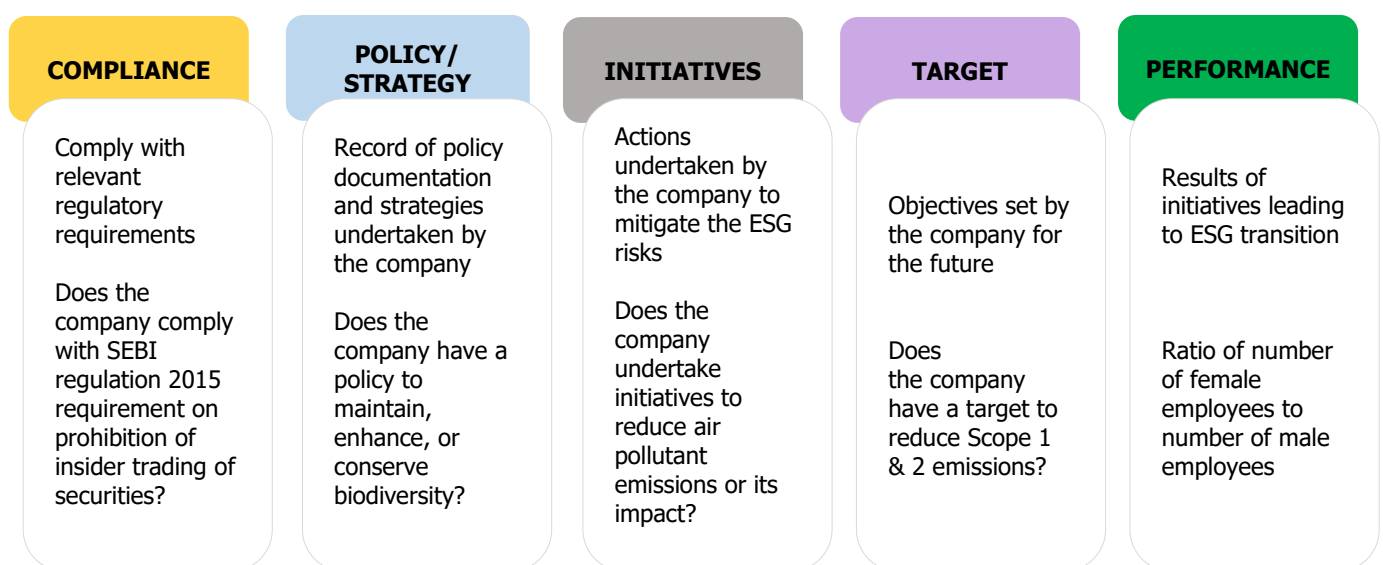
KIs are segmented into the following five primary activity types within CareEdge-ESG's rating framework: Compliance, Policy/Strategy, Initiatives, Targets, and Performance. Compliance and Policy/Strategy are considered basic ESG activities and are thus assigned the lowest weights.

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<sup>7</sup> For example, a KI used in assessment of cybersecurity will have lower materiality as opposed to those assessing employee health & safety or effluent treatment for a bulk chemical manufacturing company

Activities describing Initiatives and Targets receive intermediate weights, while KIs demonstrating quantifiable performance outcomes are given the highest weights. This assignment, based on the type and significance of the activity, is termed as Activity Weights ( $A_w$ ) and is consistent across all sectors, making these weights sector-agnostic. Exhibit 2 illustrates the categorization of a set of five KIs for five types of activities.

Exhibit 2: KI Categorization by Type of Activity



The key indicator categorization by type of activity for the 400 KIs in CareEdge-ESG's rating model is summarized in exhibit 3. The indicators are arranged in the ascending order of their activity weights. It is evident that the mere compliances contribute the least to the overall ESG score. Whereas performance indicators contribute the most, given their highest weight and maximum proportion of indicators.

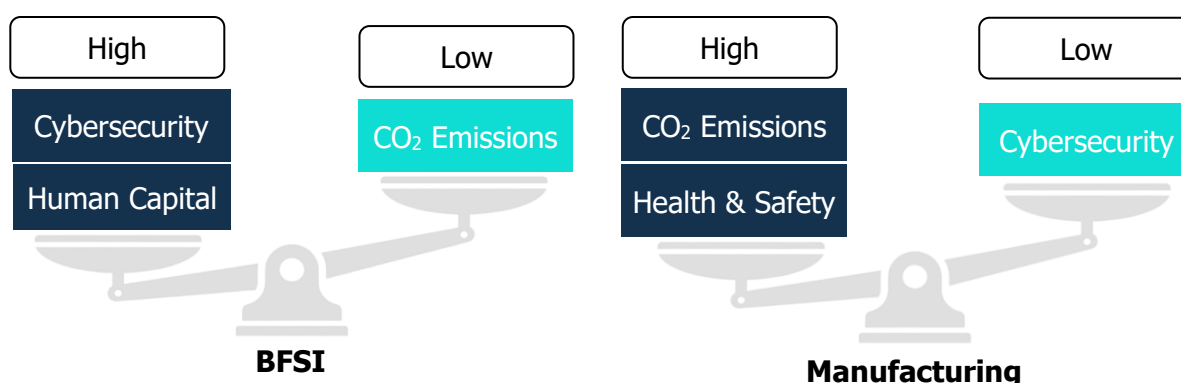
Exhibit 3: KI Distribution by Activity

Key Activity	# of KI
① Compliance	45
② Policy/Strategy	42
③ Target	18
④ Initiative	135
⑤ Performance	160
<b>Total</b>	<b>400</b>

### KI by Materiality

CareEdge-ESG Rating also classifies KIs based on their materiality, which varies by sector and industry. The model assigns a materiality weight ( $M_w$ ) reflecting the indicator's relative importance to a specific industry. Four levels of materiality are recognized: None, Low, Medium, and High. For instance, an indicator irrelevant to a particular industry receives zero weight<sup>8</sup>, while others receive appropriate weights based on their materiality. The key indicators under the governance pillar are sector-agnostic, with fixed materiality across sectors. Exhibit 3 showcases how materiality is applied differently between the BFSI and Manufacturing sectors, with carbon emissions cited as an example.

Exhibit 4: Materiality of KIs



<sup>8</sup> For example, a KI related to sourcing of palm oil certified by the Roundtable on Sustainable Palm Oil (RSPO) is a specific indicator for the FMCG companies and will carry a zero weight for all other sectors

## KI by Sources

Each KI is linked to relevant sources such as BRSR, GRI, CDP, SASB, TCFD, and SBTi. This mapping aims to evaluate performance across various frameworks, though it does not influence the weight or score of the indicators.

## KI by Prioritization

KIs are further categorized by their analytical priority into Essential, Leadership (aligned with BRSR classifications), Critical, and Good-to-have. This helps assess company performance in terms of transparency and disclosure practices, yet it does not materially impact the final ESG scores.

Exhibit 5: KI Categorization by Priority



into attributes and grouped by their ESG themes across E-S-G pillars. Tables 1 to 3 provide the attribute de

## Pillars & Themes






The key indicators are organized into attributes and grouped by their ESG themes across E-S-G pillars as depicted in Exhibit 6. Tables 1 to 3 provide the attribute details by each theme under each of the three pillars<sup>9</sup>.

Exhibit 6: KI Categorization by Pillars



<sup>9</sup> If for an industry, the materiality weight of all attributes within a given theme is 'No' then the theme is not scored for companies within the particular industry.

Table 1: Environment Pillar - Themes & Key Attributes

Environment Themes	Qualitative Description of Key Attributes as Defined by CareEdge-ESG Ratings
<b>Climate change risk management</b> 	Topics covering climate-related risks & opportunities. Whether climate scenario analysis & stress testing are embedded into the risk management framework. Are climate risks assessed & used in sanctioning/pricing of assets (for BFSI), adoption of green bonds, environmental management system (EMS) guidelines/standards
<b>Energy Efficiency</b> 	Energy usage policies and targets set by the company, does the company use energy management systems what is companies' performance under the Performance, Achieve and Trade (PAT) Scheme. How does an entity fare on parameters like green building ratings, energy assurance and energy intensity
<b>Water usage &amp; management</b> 	Compliance with the Water Act and zero liquid discharge, water treatment profile score for companies along with recycled quantities. Steps taken to reduce water consumption by keeping a tab of water consumption intensity, water treatment profile score in water stressed areas, water assurance by external agencies
<b>Carbon and other emissions</b> 	GHG and other air pollutant emissions including Scope 1, Scope 2 and Scope 3 intensities, carbon pricing mechanism, level of adoption and consumption of renewable energy together with targets set for their production and consumption
<b>Effluent &amp; waste</b> 	Waste intensity, waste disposal and waste recovery. Handling of hazardous waste together with the reduction targets set for the same
<b>Green Supply Chain</b> 	Environmental assessment of value chain partners, promotion of environmentally responsible supply chain monitoring and reporting of breaches by the suppliers
<b>Packaging Materials</b>	Sustainable packaging policy and environmental impacts of product packaging
<b>Product footprint &amp; stewardship</b> 	Environmentally responsible products or services offered by the company. Proportion of reclaimed products and products designed to be recycled or reused. Reclamation & safe disposal of hazardous waste. Extended Producer Responsibility (EPR) & Life cycle assessments
<b>Raw material sourcing</b> 	Safety risks & adverse effects by substances in raw materials, toxic material usage & initiatives to promote use of recycled materials. Sustainable sourcing aspect of the value chain
<b>Biodiversity</b> 	Operations in ecologically sensitive areas, plans and strategy to manage biodiversity, company's policy on biodiversity and its risk assessment







The critical aspect of CareEdge-ESG's rating model is that the materiality weight is defined for each KI in a bottom-up manner. This weight takes into account the sector specific nuances.

Table 2: Social Pillar - Themes & Key attributes

Social Themes	Qualitative Description of Key Attributes as Assessed by CareEdge-ESG Ratings
<b>Human Capital</b> 	Diversity, Equity & Inclusion (DEI). Differently abled workforce compliance & accessibility. Pay parities - female & male employees, policy for training & career development, training of workers on skill upgradation and employees on BRSR. Grievance redressal mechanisms, parental leaves & flexible working hours
<b>Human Rights</b> 	Sexual harassment policy, complaints received, and complaints upheld from female employees. Human rights policy of the company and its integration in- business agreements and contracts. Human rights training imparted to the employees. Changes in its business process resulting from grievances regarding human rights and establishment of a human rights committee
<b>Privacy &amp; Data Security</b> 	Compliance with cybersecurity & data privacy policies adopted by the company & its internal audit on cybersecurity. Number of data breaches & ISO certifications
<b>Employee health &amp; safety</b> 	Health and safety policies and their related certifications like ISO OHSAS etc. Identification and reporting of Non-occupational healthcare services and work hazards. Employee life insurance or compensatory package on the death of employees. Total recordable injury rate & lost time injury frequency rate
<b>Consumer Protection</b> 	Adoption of customer satisfaction surveys, its Net Promoter Score, mechanisms to inform consumers of any risk of disruption/discontinuation of essential services, responsible advertisement policy and responsible advertisement initiatives. Grievance redressal, awareness, and serious concerns raised by consumers
<b>Community support &amp; development</b> 	CSR compliance & beneficiaries from marginalized groups, social impact assessments and concerns raised. Jobs were created in rural and semi-urban areas. Grievance redressal mechanism for communities to address their concerns. Priority sector lending, intellectual property based on traditional knowledge
<b>Product safety &amp; quality</b> 	Product/service quality being delivered by the company. Product safety testing & hazardous chemicals policy adopted by the organization. Certifications like ISO, and GNCAP impart performance credibility. Animal testing initiatives & product recalls
<b>Supply Chain</b> 	Value chain grievance redressal mechanisms & human health rights/health and safety policies for the suppliers. Environment and social parameters in the screening process for its significant suppliers. Exposure to top trading houses and dealers for purchases and sales, training of value chain partners on the BRSR principles. Sourcing from MSMEs/small producers, human rights assessment of suppliers.



Table 3: Governance Pillar - Themes & Key Attributes

Governance Themes	Qualitative Description of Key Attributes as assessed by CareEdge-ESG Ratings
<b>Board Composition</b> 	Board diversity, statutory requirements on setting up various committees including audit committee, risk management committee & independent members requirement for these committees. Board size, appointment of independent directors
<b>Board Functioning</b> 	Board functioning in terms of the periodic gap between two AGMs & disclosures around its attendance, participation and minutes. Board rotation compliance, external auditor rotation compliance, number of board meetings, relevant experience of board members
<b>Business Ethics</b> 	Policies related to insider trading, code of conduct for employees and supply chain, anti-money laundering policy. Code of conduct for companies' suppliers, vendors and distributors. Related party disclosures, anti-competitive incidents, grievance redressal for investors & shareholders, training imparted in relation to code of conduct
<b>Oversight on ESG</b> 	Whether BRSR principles and policies are approved by the board, frequency of review of BRSR principles and BRSR performance, stakeholder engagement policy and consultation on ESG topics. Involvement of senior management in ESG policies, ESG expertise in board/senior management. Business continuity plan, certification for stakeholder engagement
<b>Remuneration</b> 	Fair remuneration policies of the company. Shareholders' approval for the board's compensation plan, cap on its key management personnel bonus, CEO pay gap, alignment of remuneration of key management with sustainability related targets
<b>Reporting, Filing &amp; Disclosures</b> 	Delay in reporting of financials by the company and restatement of results. Opinion issued by the external auditor for the fiscal year results of the company

Furthermore, the CareEdge-ESG's rating framework incorporates an analysis of changes in key quantifiable performance indicators across themes and pillars over 2-3 years when assigning scores at the theme and pillar levels. This method is known as Transition Scoring within the CareEdge-ESG framework. This approach allows for a dynamic assessment of progress or regression in a company's ESG performance, providing a temporal dimension to the ratings that captures improvement or deterioration over time. The *Parivartan* or Transition scoring approach is explained in the next section.

## Transition Scoring

In the CareEdge-ESG's rating framework, Transition Scoring<sup>10</sup> plays a critical role by assessing the change or transformation in key quantifiable performance indicators over a 2 – 3-year period. This approach provides a dynamic measure of a company's progress or setbacks within the context of ESG performance, allowing for a nuanced analysis of trends and patterns that influence long-term sustainability.

For the **Environmental pillar**, Transition Scoring focuses on metrics such as water consumption intensity in stressed areas, particulate emissions, waste-related indicators, and energy and emissions-related metrics. These indicators are crucial for assessing the environmental impact and the effectiveness of a company's sustainability initiatives over time.

In the **Social pillar**, the framework evaluates changes in wages paid in tier 2 and tier 3 cities, lost time frequency due to accidents, employee turnover, costs incurred on the well-being of employees, pay parity, and sourcing from MSMEs. These indicators cover themes such as employee health & safety, human capital, diversity and inclusion, human rights, product safety and quality, supply chain management, and community support and development. Transition Scoring here highlights shifts in social responsibility and workforce management practices.

For the **Governance pillar**, key areas such as grievance redressal, BRSR principal coverage, and board & KMP composition are analyzed. Transition Scoring assesses improvements or declines in governance practices, providing insights into how governance structures adapt and evolve in response to regulatory and ethical standards.

Overall, transition Scoring within the CareEdge-ESG's framework enriches the ESG evaluation process by integrating a temporal analysis that captures essential changes in performance, enhancing the reliability and depth of ESG assessments.

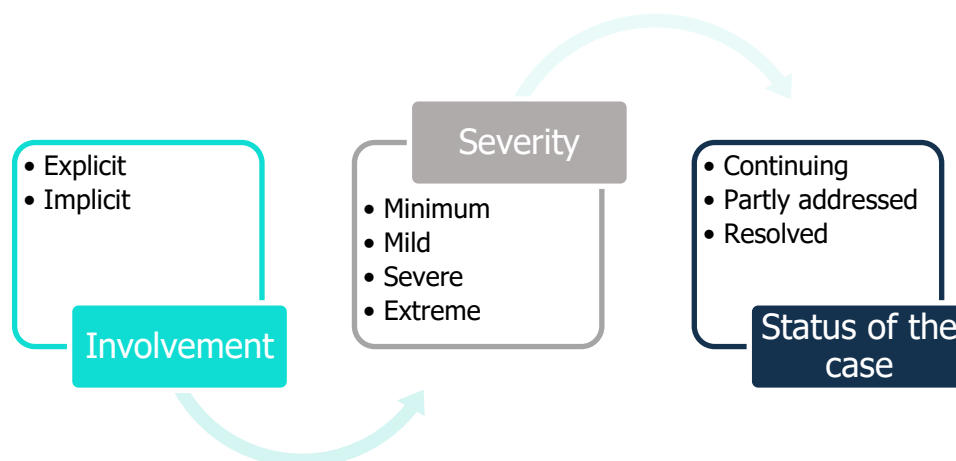
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<sup>10</sup> Also called *Parivartan*. "Parivartan" is a Sanskrit term that aptly translates to "transformation" or "change" in English. SEBI has strategically adopted this term in the context of ESG ratings to underscore the critical transformation underway within Indian corporates.

## Controversy Scoring

CareEdge-ESG defines controversies as any key material event or news that can have a negative ESG impact on the company's operations, products and sustainability. As illustrated in exhibit 5, CareEdge-ESG categorises each controversy in three different ways based on company's involvement in the controversy, its severity and status. Controversies are classified as 'explicit' or 'implicit', based on company's involvement and as 'minimum', 'mild', 'severe' or 'extreme', based on severity of the event. Further, based on the status of the controversy, it is classified as 'continuing', 'partly addressed', or 'resolved'. CareEdge ESG assesses the impact on KIs associated with controversies, depending on these categorisations. The negatively impacted KIs in turn have an adverse impact on scores of corresponding themes. In addition, CareEdge-ESG's rating model adjusts scores of governance-related themes as most controversies tend to pose a reputational risk to the companies.

Exhibit 7: Controversy Classification



CareEdge-ESG's rating framework incorporates a controversy related multiplier that adjusts scores at the pillar or theme level resulting in an impact on the overall score. The final ESG score is a controversy adjusted score.

For example, in case of an extreme controversy in which the company is explicitly involved, CareEdge-ESG could adjust the relevant pillar score. The multipliers used by CareEdge-ESG for adjusting the scores based on the type of controversy, the company's involvement and its status are given in Table 4.

Table 4: Controversy Multipliers

		Company Response / Severity -->	Extreme	Extreme	Severe	Severe	Mild	Mild	Minimum	Minimum
		Involvement	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit	Explicit	Implicit
Status of the case	Continuing	No / Some communication and No / inadequate measures taken	0.00	0.10	0.30	0.40	0.70	0.75	0.85	0.90
	Continuing	Adequate communication and appropriate measures taken	0.10	0.20	0.40	0.50	0.75	0.80	0.90	0.95
	Partly addressed	Controversy Partly addressed	0.20	0.30	0.50	0.60	0.80	0.85	0.95	1.00
	Resolved	All categories	0.30	0.40	0.60	0.70	0.85	0.90	1.00	1.00

CareEdge-ESG tracks news and controversies regularly through various sources.

### Score Aggregation

The KI scores are aggregated at theme and pillar level by use of a multilevel weighting approach specific to the sector and industry thereby making the final score comparable across companies on a standardized scale ranging from 0 to 100.

### ESG Ratings are Different from Credit Ratings

ESG ratings evaluate how well a company manages environmental, social, and governance (ESG) risks and opportunities. CareEdge-ESG assesses an issuer's ESG profile based on disclosures, policies, initiatives and performance related to sustainability practices. The ratings aim to increase stakeholder confidence in the seriousness of a company towards a sustainability-focused business approach. They provide an insight into the company's commitment to and effectiveness in implementing ESG practices, reflecting on the company's long-term sustainability and ethical impact.

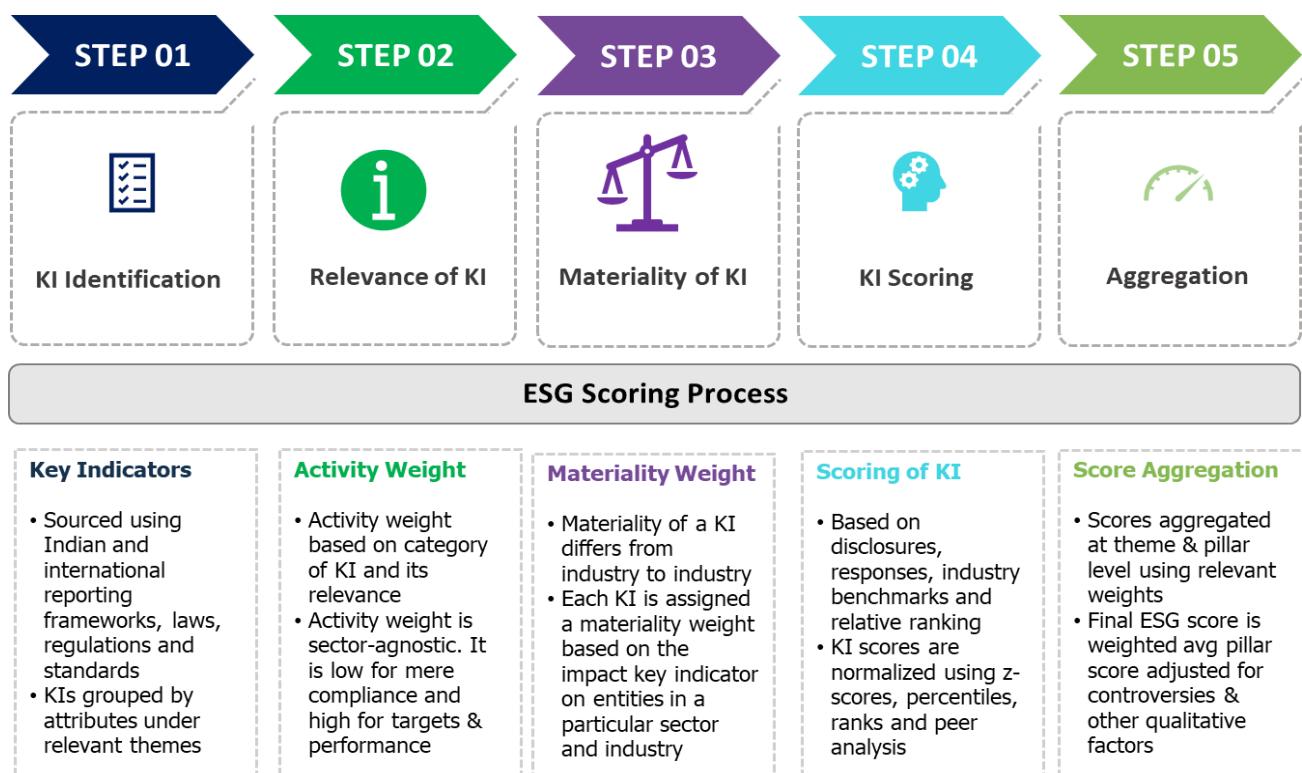
The ESG ratings are different from credit ratings as they do not offer any opinion on the creditworthiness of a company or its financial instruments. Also, ESG ratings do not comment on a company's ability or likelihood of servicing its debt obligations.

## CareEdge-ESG Rating Model: Detailed Description

### Indicators: Weighting & Scoring

Indicators (KI) are the foundational elements of our ESG model. They represent specific metrics that evaluate various aspects of a company's operations, from environmental impact to governance practices. Each indicator is meticulously chosen to reflect critical areas of performance. The indicators are assigned weights based on their significance and materiality. CareEdge-ESG defines these weights as Activity weight ( $A_w$ ) and Materiality weight ( $M_w$ ).

Exhibit 8: ESG Scoring Process



Activity weight captures the nature of the indicator, whether it is policy-driven, strategy-driven, or performance-driven. For instance, a performance-oriented indicator like emissions reduction is given a higher activity weight than a policy statement. Activity weight is uniform across sectors and industries. On the other hand, the materiality weight varies from industry to industry. Materiality weight reflects the importance of the indicator across industries. For example, water usage might be

highly material in the steel industry but less so for the trading companies. Based on the relative cross-sector importance, the materiality is considered to be low, medium, high or no and weighted accordingly. At its lowest level, the CareEdge-ESG model assigns a composite weight ( $I_w$ ) to all its indicators by combining activity weight and materiality weight as given below:

$$I_w = A_w * M_w$$

CareEdge ESG uses common set of key indicators in its scoring model across all industries and sectors. While most of the KIs are not industry specific, the composite weight of  $I_w$  assigned to all KIs vary by industry and sector.

All the key indicators are scored (Indicator Scores =  $I_s$ ) between 0 and 1 (in some exceptions, they are scored between -1 and 0) based on company responses & disclosures, industry benchmarks, percentiles, or z-scores. The scoring depends on the type of indicator. The indicators with low activity weight are assigned a binary score of either zero or one and those with higher activity weights are assigned a score between 0 and 1 based on industry benchmarks and standards. These scores are normalized using z-score standardization in most cases. These scores reflect the company's adherence to best practices and performance benchmarks. The ESG rating model of CareEdge-ESG also defines the maximum possible indicator score for each KI. This is represented by  $I_{smax}$ . The indicator score multiplied by its composite indicator weight results in Weighted indicator score ( $WI_s$ ). This ensures that the more significant and more material indicators contribute more to the overall weighted indicator score. The computation of  $WI_s$  is given in the following equation.

$$WI_s = I_s * I_w$$

Similarly, the maximum possible indicator score (represented by  $WI_{smax}$ ) is given by:

$$WI_{s(max)} = I_{s(max)} * I_w$$

## Theme & Pillar Scores

CareEdge-ESG's scoring model computes theme scores in a two-step process. First the key indicator scores are aggregated by their key attributes and their respective themes. Then they are normalized using maximum possible weighted indicator score of the given theme. The calculation for a theme score ( $T_s$ ) pertaining to Theme 1 ( $T^1_s$ ) is given by following formula:

$$T^1_s = \frac{\sum_{i=1}^n WI^i_s}{\sum_{i=1}^n WI^i_{s(max)}}$$

Where  $I_s$  is the score of  $i^{\text{th}}$  key indicator under Theme 1 and  $n$  is the number of KIs under Theme 1

CareEdge-ESG ranks the themes based on their relative importance for the given sector. Based on hierarchy of themes under each pillar, the themes are assigned weights ( $T_w$ ) using multi criteria decision making process. The weighted aggregation of normalized theme scores yields a score for the respective pillars. For example,

$$\text{Environmental Score} = \sum_{j=1}^n T^j_s * T^j_w$$

Where,  $T_s$  is the normalized score of  $j^{\text{th}}$  theme,  $T_w$  is its weight, and  $j$  is number of themes under a pillar.

The same process is repeated for the Social and Governance pillars. Finally, the pillar scores are aggregated using pillar weights<sup>11</sup> to arrive at the final comprehensive ESG score for the entity.

<sup>11</sup> Ranges for the pillar weights for manufacturing services and infrastructure sectors are mentioned in Annexure 4

## Normalization Techniques

- To make the ESG scores comparable across different industries, several normalization techniques are employed:
- Z-Scores are used to standardize scores across companies and industries. Z-scores standardize scores by converting them into a common scale, allowing for direct comparison across different metrics and companies.
- Use of Industry Benchmarks to ensure that scores reflect industry-specific contexts. This involves comparing a company's performance to industry averages or leading practices. Comparisons against industry averages help to contextualize the scores.
- Percentile ranks are used to position a company's performance relative to its peers, providing insight into its standing within the industry.

## ESG Score Calculation

The ESG score is derived from a weighted average of the three pillar scores, providing a holistic view of a company's ESG performance. This final score integrates the detailed assessments across all indicators, themes, and pillars.

This makes the scores of different companies comparable across a standardized scale ranging from 0 to 100. However, these scores are to be interpreted in the context of the broad contours of the given industry or sector and the relative importance of themes within a given industry or sector. For example, a company in the Banking sector and one in the Energy sector might have similar scores, but the bank's score must be interpreted keeping in mind the dominant themes of Data Privacy and Consumer Protection themes while the energy sector will have Air emissions and Employee health & safety as the dominant themes. Thus, it is important to note that though scores are comparable across sectors, contextual interpretation is important.



## Glossary

SEBI	Securities & Exchange Board of India
BRSR	Business Responsibility and Sustainability Reporting
Water Act	Water (Prevention and Control of Pollution) Act, 1974
Air Act	Air (Prevention & and Control of Pollution) Act, 1986
Waste Management Rules	Hazardous Waste (Management Handling and Transboundary Movement) Rules, 2016
EPR	Extended Producer Responsibility,
CPCB	The Central Pollution Control Board
LODR	Securities & Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015
EPA	Environment Protection Act, 1986
Company law	The Companies Act, 2013
Biodiversity Act	Biodiversity Act, 2002
KI	Key indicators
$A_w$ $M_w$ $I_w$ $T_w$	Activity weight, Materiality weight, Indicator weight and Theme weight
$I_s$ $I_{smax}$ $T_s$	Indicator score, Maximum indicator score, Theme score
IR	Integrated reporting
MCA	Ministry of Corporate Affairs
NGRBC	National Guidelines on Responsible Business Conduct
BIS	Bureau of Indian Standards
IS/ISO 14001	Environmental Management Systems
IS/ISO 50001	Energy Management
IS/ISO 26000	Social Responsibility
ISO 45001	Occupational Health & Safety
IGBC	Indian Green Building Council
SDG	Sustainable Development Goals
RPO	Renewable Purchase Obligation
SDF	Sustainable Development Framework
CDP	Carbon Disclosure Project
GRI	Global Reporting Initiative
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-related Financial Disclosures
SBTi	Science Based Targets initiative

DEI	Diversity, Equity & Inclusion
IOSCO	International Organization of Securities Commissions
TRIR	Total Recordable Injury Rate
LTIFR	Average Lost Time Injury Frequency Rate
MSME	Micro, Small & Medium Enterprises
ISO	International Organization for Standardization
CSR	Corporate Social Responsibility
OHSAS	Occupational Health and Safety Assessment Series
NPS	Net Promoter Score
AGM	Annual General Meeting
EHS	Environment, Health and Safety
AUM	Asset Under Management
PSL	Priority Sector Lending
ANBC	Adjusted Net Bank Credit

## ***Annexure 1: List of Indicative Information Requirement***

- Preliminary information requirement list for rating exercise:
- Annual report / Integrated report
- Financial statements / Quarterly reports
- ESG report / Sustainability report
- Reports based on standards and frameworks, if available
  - ✓ BRSR report, BRSR assured data, CSR report
  - ✓ GRI, TCFD, CDP, DJSI, UN SDG
- Materiality assessment report and actions taken on the essential themes
- ISO certifications and ISO audit reports
- Regulatory compliance related documents submitted with relevant authorities
- All the policies documents (Board approved) with respect to ESG & sustainability
- Annual returns documents
- Targets set for various ESG themes along with the base year assumptions used in calculations
- Shareholder information, grievances redressal, privacy policy
- Draft red hearing prospectus, if applicable
- Corporate governance report
- Transcripts of analyst calls
- Corporate presentation/ Investor presentation

While CareEdge-ESG sources information directly from public sources, it also collects the abovementioned data directly from the company. Additional information may be taken by CareEdge-ESG during assignment execution.

## Annexure 2: Definition & Symbols for ESG Ratings

CareEdge-ESG assigns ratings on a scale of 0-100, with 100 being the highest score. The assigned score is categorised into one of the five broad categories viz. Leadership, Strong, Adequate, Below Average, and Weak considering their ability to manage ESG risk and quality and scope of disclosures, policies and performance metrics. Detailed definitions and ESG rating symbols for different levels of ESG scores assigned by CareEdge-ESG are given in Table 5.

Table 5: ESG Rating Scale & Definitions

Rating Symbols	Rating Category	Rating Definition
CareEdge-ESG 1+	80 – 100	<b>Leadership</b> position in managing ESG Risk through <b>best-in-class</b> disclosures, policies, and performance
CareEdge-ESG 1	70 – 79	<b>Strong</b> position in managing ESG Risk through <b>superior</b> disclosures, policies, and performance
CareEdge-ESG 2	60 – 69	<b>Adequate</b> Position in managing ESG Risk through <b>modest</b> disclosures, policies, and performance
CareEdge-ESG 3	40 – 59	<b>Below Average</b> Position in managing ESG Risk through <b>elementary</b> disclosures, policies, and performance
CareEdge-ESG 4	30 – 39	<b>Weak Position</b> in managing ESG Risk through <b>weak</b> disclosures, policies, and performance
CareEdge-ESG 5	0 – 29	







Modifier {"+" (plus)} is used with the rating symbol at the highest category representing exemplary position within same rating category.

'**Core**' is prefixed to the rating symbols when a rating is assigned based on third-party assured or audited data disclosed by the Company in its Core BRSR report.

Please refer to CARE ESG Rating's website [www.careedgeesg.com](http://www.careedgeesg.com) for detailed reference to ESG rating symbols and definitions for various ESG rating products.

## Annexure 3: Examples of Sector Specific Indicators

Exhibit 9: Sector-specific samples of few key indicators

Metals & Mining		BFSI	
	<ul style="list-style-type: none"> <li>Non-fossil fuel energy consumed</li> <li>Initiatives to move towards EAF</li> <li>Clean fuel substitution</li> </ul>		<ul style="list-style-type: none"> <li>Reduction in financed emissions</li> <li>Green finance</li> <li>PSL target achievement</li> </ul>
Cement		FMCG	
	<ul style="list-style-type: none"> <li>Specific energy consumption</li> <li>PAT schemes</li> <li>Blending ratios</li> </ul>		<ul style="list-style-type: none"> <li>EPR scheme</li> <li>Use of sustainable palm oil</li> <li>Sustainable farming</li> </ul>
Oil & Gas		Power	
	<ul style="list-style-type: none"> <li>Output from biorefineries</li> <li>Input fuel mix</li> <li>QMS as per 29001</li> </ul>		<ul style="list-style-type: none"> <li>Grid availability</li> <li>Usage of smart meters</li> <li>Renewable energy usage</li> </ul>

## *Annexure 4: Pillar Weights for Different Sectors*

CareEdge-ESG uses pillar weights from the range of weights given in Table 6 for different sectors. The ranges are broad as different sectors within the industry have differing significance and materiality across environmental, social and governance categories. The precise weights used by CareEdge-ESG in assigning ESG scores are included in the rating report and rating rationale published by CareEdge-ESG on its website.

Table 6: Range of pillar weights by sectors

Industry	Weights <sup>12</sup>		
	Environment	Social	Governance
Manufacturing	25% – 45%	25% – 45%	25% – 35%
Services / BFSI	10% – 20%	35% – 55%	35% – 45%
Real Estate / Infrastructure	25% – 45%	20% – 40%	30% – 40%

<sup>12</sup> These ranges appear broad given wide variations in the relative importance of different themes in each pillar across industries/sector.

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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 pioneer 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.

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