

Is ESG Just a Tick in The Check Box?

May 2025

With the changing global business landscape, Environmental, Social, and Governance (ESG) factors have become crucial to assessing a company's long-term sustainability and financial health. In India, companies are becoming increasingly aware of the reputational risks associated with substandard Environmental, Social, and Governance (ESG) practices. Consequently, there is a growing pressure to implement effective initiatives and enhance sustainability performance. However, despite the increasing focus on ESG, most companies continue to view it as a mere check-box exercise rather than an integral part of their strategy. The introduction of the Business Responsibility and Sustainability Reporting (BRSR) framework, which is voluntary for the top 1,000 companies ranked by market capitalisation and mandatory from FY23 onwards, is a move toward helping to overcome this issue. Although the developments appear promising, an in-depth analysis reveals why most Indian companies continue to struggle with integrating genuine sustainability practices into their operations. To them, ESG tends to be more of a formality than a transformative approach. Several challenges contribute to this situation.

Limited Understanding of ESG's Importance

While awareness of environmental sustainability and social responsibility has increased, companies often struggle to translate these concepts into actionable steps within their operations. Many businesses and stakeholders are not fully aware of the importance and benefits of ESG practices. This lack of understanding can hinder the adoption of ESG principles.

Challenges in Aligning with Global Standards

The shift toward comprehensive ESG reporting requires companies to report data according to defined standards and frameworks. Companies with an international business footprint are compelled to adopt international frameworks, such as the Global Reporting Initiative (GRI) or the Task Force on Climate-related Financial Disclosures (TCFD). These frameworks often differ from traditional Indian business practices and the Indian ESG regulatory framework, i.e. BRSR. For most businesses, understanding and implementing these global benchmarks can be a significant challenge, as it involves technical expertise, associated costs and cultural alignment. The absence of clear guidelines tailored to the local context, combined with a lack of capacity-building and training resources, can make it challenging for companies to implement ESG practices effectively.

Investment Burden

ESG reporting is resource-intensive, both in terms of time and finances. Many companies, particularly small and medium-sized enterprises (SMEs), struggle to allocate the necessary resources to meet their ESG requirements. Collecting and analysing data, hiring specialised staff, and investing in data management systems can be costly. For businesses already operating on thin margins, the financial burden of ESG compliance may be perceived as a barrier

rather than a strategic advantage. For larger corporations, the need to hire additional staff or set up dedicated ESG teams further increases operational costs.

Data Reporting Issues

Effective ESG reporting requires companies to gather detailed and accurate data on a wide range of factors, including energy consumption, waste management, labour conditions, and board diversity, among others. This data must be standardised across departments and business units, which can be a daunting task for many organisations. The challenge is particularly pronounced when it comes to supply chain reporting. Many companies, particularly those with extensive and intricate supply chains, lack the necessary visibility and control over these areas. As a result, they struggle to provide accurate and complete information, which undermines the efficacy of their ESG/Sustainability reports.

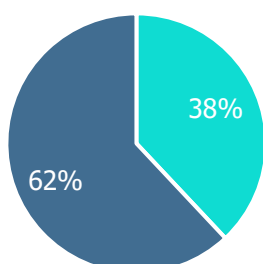
Difficulty in Demonstrating ROI from ESG Investments

Many businesses, especially in emerging markets like India, are still sceptical about the financial return on investment (ROI) from ESG initiatives. The link between sustainability initiatives and improved financial performance is not always immediately apparent. Companies may hesitate to make substantial investments in sustainability practices, viewing them as non-essential or “nice-to-have” additions rather than as drivers of long-term competitiveness. Without a clear understanding of how ESG impacts profitability, companies may continue to treat it as a regulatory compliance exercise rather than a strategic initiative to create value.

CareEdge-ESG Research

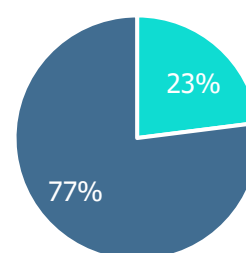
Currently, there are no specific regulations requiring companies to appoint board members or senior management with expertise in climate and social parameters to oversee environmental, social, and governance (ESG)- related matters. According to an analysis conducted by CareEdge-ESG, which surveyed 102 companies across heavy electricals, power, metals and mining, cables, banks, and NBFCs, only 23% of companies have board-level expertise dedicated to addressing environmental-related issues. In contrast, only 38% of companies have board-level expertise dedicated to addressing social-related issues. This ratifies that the majority of the companies do not go beyond mere compliance in driving ESG from the boardroom.

Social Parameters



Only 38% of companies board members or senior management possess expertise in social-related parameters

Environment Parameters



Only 23% of companies board members or senior management have expertise in environmental /climate-related parameters

Findings of India's Preparedness Survey

According to India's ESG preparedness survey:

- Only 27% of Indian organisations feel sufficiently prepared to meet their ESG strategy
- Just 15% of the surveyed businesses believe their suppliers are equipped to comply with their ESG expectations

These results highlight the significant challenges Indian businesses encounter in effectively implementing ESG principles. Despite a strong commitment to ESG, the survey highlights a significant gap between intention and actual preparedness.¹

The rise of ESG in India

As India moves toward sustainable development, ESG regulations are crucial for enhancing accountability, transparency, and resilience, thereby ensuring the adoption of tangible ESG practices across various industries. A third-party survey report presents an optimistic outlook on the growing importance of ESG in India²:

- ~88% of organisations recognise that sustainability regulations directly affect their businesses
- Over 75% agree that ESG has become a key topic in boardroom discussions
- 90% believe that ESG reporting would enhance business performance by strengthening brand reputation

Socially conscious investors are increasingly holding businesses accountable for their ESG actions.

- ~75% of organisations reported that their investors assess their ESG performance
- 71% of organisations noted that voluntary participation in ESG ratings is becoming a growing trend
- Notably, 60% of organisations are focusing on setting ambitious ESG goals for the future

Consequently, there is an increasing requirement for companies to move beyond mere ESG compliance to more result-oriented performance, signalling a positive trajectory for ESG integration within India Inc.

To address ESG challenges, companies should invest in education and training, align with global standards while customising for the local context, and use technology to streamline data collection and reporting. There should be a regulatory compliance requirement mandating the establishment of a governance body in each company to oversee ESG-related matters. Viewing ESG as a long-term strategic opportunity rather than a compliance requirement enhances profitability, brand value, and transparency. India's regulatory support for ESG is evolving with frameworks like BRSR and increased pressure from SEBI for enhanced disclosures.

The most effective way for companies to navigate the flurry of activities is by obtaining ESG ratings from SEBI-registered ERPs, following the Issuer-pays business model. ESG ratings are increasingly important as they reflect a company's commitment to sustainability, ethical practices, and long-term value creation. Companies should start by assessing their current ESG performance to understand their position relative to their sectoral peers. This self-

¹ The survey, conducted by a third party, was distributed to 150 organizations to evaluate their preparedness for ESG requirements, including policies, regulations, disclosures, and compliance. It also aimed to assess their ESG strategies and initiatives. The respondents included Chief Executive Officers (CEOs), Chief Financial Officers (CFOs), Chief Sustainability Officers (CSOs), heads of Corporate Social Responsibility (CSR), as well as management and operations executives. Survey published on May 18, 2023.

² The survey, conducted by third party and was published on May 18, 2023.

assessment enables businesses to pinpoint their strengths and weaknesses, providing a clear roadmap for improvement. Benchmarking against industry standards ensures that companies remain competitive and meet the growing expectations of investors, regulators, and consumers. By taking a proactive approach to ESG, companies can build resilience and drive sustainable growth.

Achieving ESG Excellence: Leadership, Targets, and Reporting

Leverage Strong Leadership

Effective leadership is essential for driving ESG initiatives. Top executives must lead the way by championing sustainability efforts and integrating ESG principles into the company's culture and decision-making processes. Leaders should ensure that proper resources, accountability structures, and transparent reporting frameworks are in place to support these initiatives. Regularly communicating progress and engaging stakeholders is critical for building trust and demonstrating a commitment to continuous improvement.

Establish Clear ESG Goals

To enhance ESG performance and reporting, companies should initiate a comprehensive self-assessment and analysis. This assessment will serve as the basis for establishing clear, measurable ESG goals that align with the overall business strategy. Such goals may encompass objectives such as reducing carbon emissions, promoting diversity and inclusion, and strengthening governance practices.

Utilise Data-Driven Insights for Reporting

To enhance the accuracy and transparency of ESG disclosures, companies should leverage data-driven insights. Aligning ESG reports with domestic and global standards will improve credibility. This, in turn, boosts investor confidence while also fostering a positive social and environmental impact, supporting the company's long-term business growth.

Conclusion

CareEdge-ESG believes that ESG (Environmental, Social, and Governance) factors are becoming increasingly important in shaping the future of businesses in India. As regulatory frameworks like BRSR evolve and international investors place more emphasis on sustainability, companies must recognise the growing significance of ESG in enhancing their reputation and long-term competitiveness. While many Indian companies are beginning to acknowledge the importance of ESG, a gap remains in integrating it deeply into their core operations. Despite the challenges, there is a growing recognition of the importance of ESG in India. Regulatory bodies, industry associations, and companies are increasingly integrating ESG principles into their operations. By addressing these barriers, Indian businesses can make significant strides in their ESG journey. CareEdge-ESG encourages businesses to embrace ESG as a key driver of transformation and long-term value rather than simply a compliance requirement, ultimately enhancing their ability to thrive in an increasingly conscious global marketplace.

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