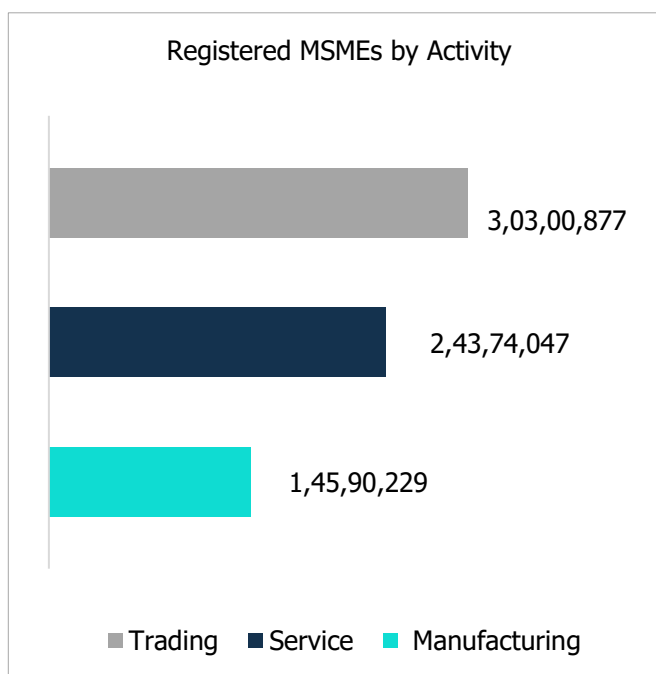
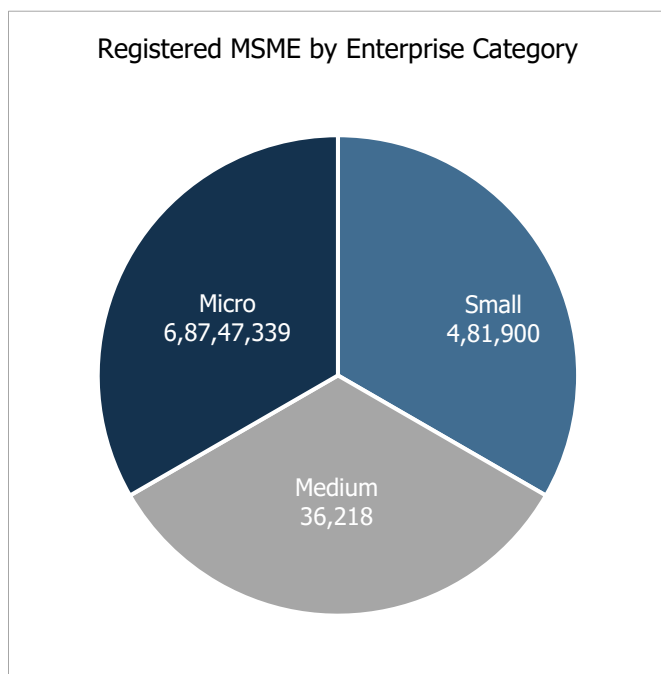
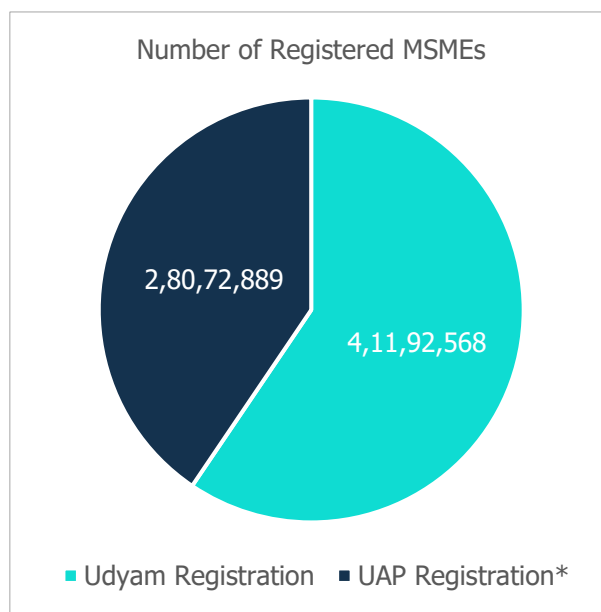


CareEdge-ESG's view on Sustainability Reporting for MSMEs

December 2025

Testing New Waters: Sustainability Reporting for Micro, Small and Medium Enterprises (MSMEs)

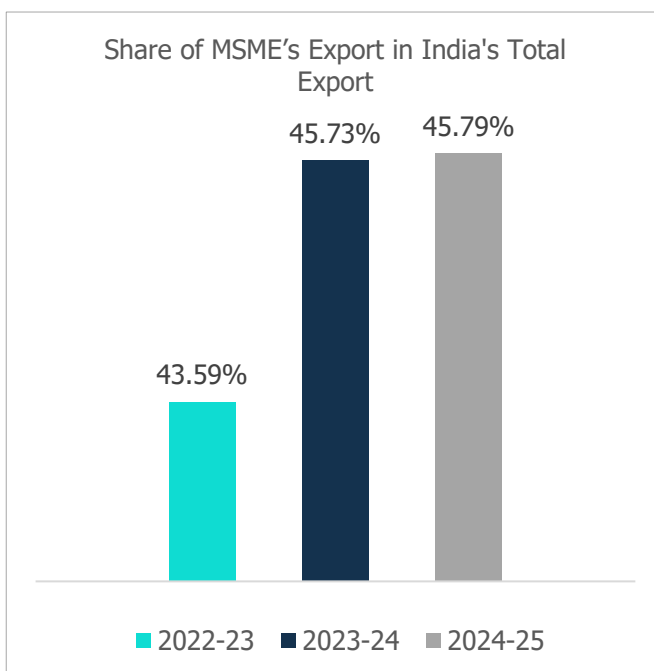
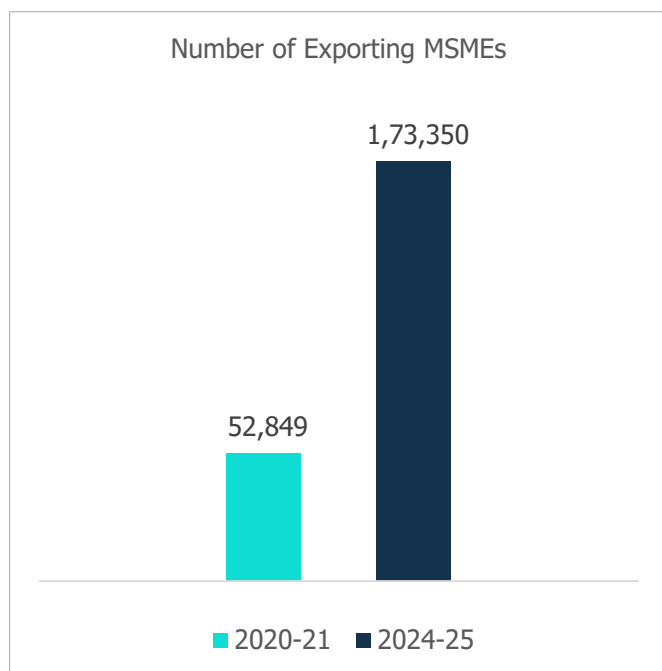
With increasing demand for corporate transparency and accountability, it is imperative that micro, small and medium enterprises (as of October 6, 2025, the total registered MSMEs are 6,90,35,263¹) start recognising the importance of sustainability reporting in their business practices. MSMEs should embrace such reporting as part of their growth strategy, as it offers long-term benefits for both their operations and the environment. By initiating environment and social-related disclosures, MSMEs can implement robust ESG action plans, strengthen their resilience, stay aligned with global trends, and appeal to customers and investors who prioritise ESG considerations. Many international buyers now emphasise sustainability, and Indian MSMEs that demonstrate transparency in their ESG practices can improve their credibility, enhance their marketability, and position themselves as preferred partners in international trade.



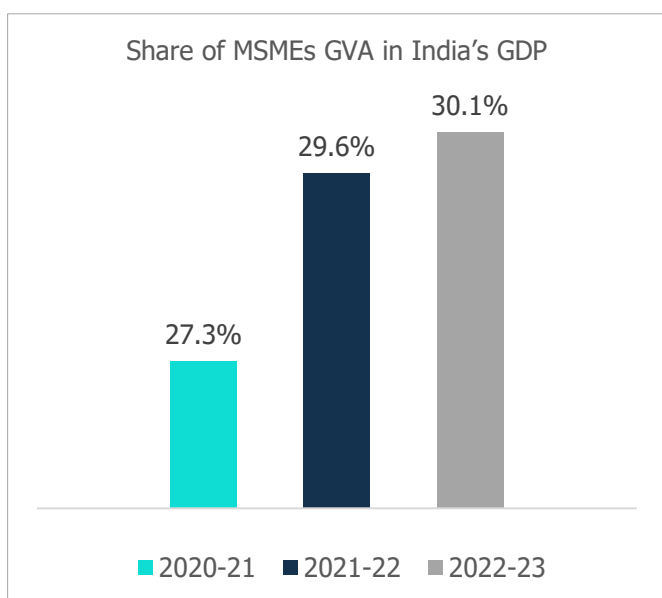
¹ Ministry of MSMEs

* UAP (Udyam Assist Platform) helps in Udyam Registration of informal micro enterprises

The upward trend² The MSMEs' share in India's total exports highlights their expanding integration into global trade and reinforces their critical role in strengthening India's position as a manufacturing and export hub.



The MSME sector remains a vital pillar of India's economic growth, contributing significantly to employment generation, manufacturing, and exports. In recent years, the industry has demonstrated notable resilience, with its rising contribution to the country's Gross Value Added (GVA)², underscoring its expanding importance in national economic output.



² pib.gov.in

Business Responsibility and Sustainability Reporting (BRSR) impact on MSMEs

The BRSR framework, introduced by SEBI, is a vital step towards formalising sustainability reporting for Indian companies. As per BRSR, the top 1000 listed companies are required to disclose information about their value chain. This value chain should include the key upstream and downstream partners, collectively accounting for 75% of the company's total purchases and sales (by value). As the top 1000 listed companies are required to report on BRSR disclosures mandatorily, and since MSMEs form part of the value chain, it is essential for MSMEs to ensure compliance with the latest regulatory expectations, which will increase their visibility in the marketplace through seamless integration with corporates. Such transparent disclosures will help MSMEs assess their current sustainability practices, ESG risks, showcase their sustainability journey, and gain credibility with stakeholders.

Sustainable Supply Chain

One of the most critical reasons MSMEs should begin ESG reporting is the growing importance of a conscious supply chain. Large corporations and multinational companies are driving the demand for more sustainable practices across their supply chains, including reporting on Scope 3 emissions, human rights practices adopted by value chain partners, and other social screening parameters. Since SMEs' Scope 1 emissions translate into corporates' Scope 3 emissions, reporting on these lines can help MSMEs demonstrate that they are meeting these standards, which will strengthen their relationships with larger businesses and create opportunities for more sustainable supply chain partnerships. Through sustainability reporting, MSMEs can also identify areas for improvement, reduce long-term operational costs, and contribute to a greener economy. Many government agencies, corporations, and procurement programs prioritise working with suppliers that follow an ethical code of conduct, responsible governance standards and transparent environment-related disclosures, opening new avenues for MSMEs to secure contracts and partnerships.

Push from Indian Regulators

According to the RBI guidelines on the Disclosure Framework for Climate-related Financial Risks, regulated entities, primarily banks, are required to disclose information on Governance, Strategy, and Risk Management from FY 2025-26, with disclosures on Metrics and Targets, including Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions, to be provided from FY 2027-28 onwards. MSMEs demonstrating commitment to ESG standards and adopting robust sustainability reporting practices in line with these evolving regulatory expectations can significantly enhance their access to green finance and more favourable lending terms, such as lower interest rates for sustainable growth and development. Additionally, it is expected that Priority Sector Lending (PSL) will soon encompass green finance. This, in turn, will encourage banks to lend capital not only to those MSMEs that operate on a low-carbon/clean technology business model but also to those that follow robust ESG reporting systems.

CSRD: A Key for Indian MSMEs with presence in the European Union (EU) Market

The Corporate Sustainability Reporting Directive (CSRD) marks a significant shift towards greater transparency and accountability in corporate sustainability practices in the EU. Indian MSMEs with subsidiaries or business operations in the EU must align their reporting practices with these standards to remain competitive, attract investments, ensure regulatory compliance, and address evolving stakeholder expectations.

CareEdge-ESG believes that sustainability reporting is becoming a critical component for MSMEs in India, both to comply with regulatory frameworks and to gain a competitive edge in the marketplace. As the focus on areas such as supply chain sustainability and alignment with the BRSR framework increases, robust and transparent reporting by MSMEs can drive long-term operational efficiencies, attract ESG-conscious investors, and ensure long-term business resilience. With MSMEs contributing ~30% of India's GDP, this shift towards sustainability reporting will ensure that MSMEs participate in India's Sustainable Development Goals and also position themselves for success in a rapidly evolving business environment. Consequently, CareEdge-ESG believes that more concerted efforts by the government, in the form of introducing a truncated version of the BRSR and making it a voluntary disclosure to start with, will go a long way in opening the doors of sustainability for MSMEs.

Analytical Contact

Nikunj Dube	Chief Ratings Officer	Nikunj.dube@careedge.in	+91 – 72191 09995
Satabdi Mohapatra	Assistant Director	Satabdi.mohapatra@careedge.in	+91 – 6837 4400
Mausam Raj	Analyst	Mausam.raj@careedge.in	+91 – 6837 4400

Relationship Contact

Saikat Roy	Chief Executive Officer	Saikat.roy@careedge.in	+91 – 84528 15872
------------	-------------------------	------------------------	-------------------

Media Contact

Mradul Mishra	Media Relations	Mradul.mishra@careedge.in	+91 – 22 – 6754 3596
---------------	-----------------	---------------------------	----------------------

CARE ESG Ratings Limited

Corporate Office: A Wing – 1102 / 1103, Kanakia Wall Street, Andheri Kurla Road, Chakala, Andheri (East), Mumbai – 400 093
Phone: +91 - 22 - 6837 4400 | CIN: U66190MH2016PLC285575 | www.careedgeesg.com

Connect:



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.

Disclaimer:

This report is prepared by CARE ESG Ratings Limited (CareEdge-ESG). CareEdge-ESG has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CareEdge-ESG is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CareEdge-ESG Ratings has no financial liability whatsoever to the user of this report.

© 2025, CARE ESG Ratings Limited, a wholly owned subsidiary of CARE Ratings Limited. All Rights Reserved.

This content is being published for the purpose of dissemination of information. Any use or reference to the contents on an "as-is" basis is permitted with due acknowledgement to CARE ESG Ratings Limited. Reproduction or retransmission in whole or in part is prohibited except with prior written consent from CARE ESG Ratings Limited.