"INFLUENCE OF ESG SCORE ON FINANCIAL PERFORMANCE OF INDIAN COMPANIES."

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by

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Examined by: Seal of the School

DECLARATION BY STUDENT

I hereby declare that the data presented in this Dissertation / Internship report entitled, "Influence of ESG Score on financial performance of Indian companies" is based on the results of investigations carried out by me in the MBA (Financial Services) at the Goa Business School, Goa University under the Supervision/Mentorship of Dr Pinky Pawaskar and the same has not been submitted elsewhere for the award of a degree or diploma by me. Further, I understand that Goa University or its authorities will be not be responsible for the correctness of observations / experimental or other findings given the dissertation.

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COMPLETION CERTIFICATE

This is to certify that the dissertation / internship report **"Influence of ESG Score on financial performance of Indian companies"** is a bonafide work carried out by **Ms Shweta Samir Bharne** under my supervision/mentorship in partial fulfilment of the requirements for the award of the degree of Master's degree in the Discipline MBA (Financial Services) at the Goa Business School, Goa University.

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CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

Globally, a company's financial performance has historically been regarded as the primary factor in choosing wise investments. However, over the years non-financial performance have also begun to enter fund managers' and investors' thought processes in addition to financial aspects. Undoubtedly, the environmental, social, and governance (ESG) components is indicated.

There are currently a number of issues that the world is going through due to the expanding global population and the increasing risk of climate change. For organizations, particularly those whose profitability depend on their sustainability activities and practices, for them corporate sustainability is crucial to address. More so, to achieve corporate sustainability, the company should simultaneously try to maintain a balance between corporate sustainability and the interests of all the stakeholders. The Covid-19 outbreak is considered as a wake-up call to promote the concept and importance of establishing a risk-resilient organizations more than ever before; although this is highly difficult but it is nevertheless essential.

The three unique and important pillars of any business for a successful corporate sustainability are environmental (E), social responsibility (S) and corporate governance (G). The non-financial performance of an entity is evaluated using each of these parameters, each of which further comprises of sub-parameters. The "E" factor typically takes into account a company's detrimental impact on climate change. It is evaluated using environmental information or disclosures provided by a company regarding the usage of resources, their influence on biodiversity, and actions taken to reduce pollution, minimize carbon emissions, and use water and energy efficiently. These concerns have forced companies to embrace greener practices that preserve the environment and resources for future generations, such as taking all necessary steps to achieve carbon emission to zero. The letter "S" also symbolizes for an organization's social or workplace mentality, which includes protection for female employees, gender diversity, and other stakeholders. It generally refers to how the business maintains its relationships with its staff, vendors, consumers, and the community through corporate citizenship and philanthropy. The most crucial factor is the "G" factor as it determines if the business acts in a transparent manner and treats all of its stakeholders, including customers,

employees, minority owners, and investors, with respect and equity. It discusses the duties of the board of directors and the business principles they uphold. It offers details about the management's reputation, level of independence and relationships with shareholders. Additionally, it considers the quantity and quality of corporate disclosures, as well as the degree of compliance with several obligatory and optional standards.

"ESG" therefore refers to a company's overall attention to environmental, social and governance factors. It is a rating that is given using information or disclosures made by businesses that are in the public domain. The disclosure of ESG data is optional in India. But today, businesses find it unavoidable due to the public and investors demand for information on them increasing. ESG data can also be provided in other places besides annual reports, such as company websites, newspapers, social media handles, etc. Analysts study all of these sources of ESG data to evaluate each organization. ESG score is also referred to as a company's "intangible assets" as based on the scores the investors, mutual funds companies or brokerage firms will invest in the particular company that follow ESG principles.

The focus of every business is on maximizing wealth over the long run while taking ESG factors into consideration. It is acknowledged that ESG concerns can affect financial returns and are a source of risk for businesses. Several studies have been undertaken to investigate the relationship between ESG practices and organization's financial performance. However, majority of research studies have been conducted globally, and various conflicting findings have been made available regarding the relationship between these two factors. The study aims to investigate the effects of ESG scores on the financial performance of businesses. Secondly, what are the standard rules set for a company to be categorized under ESG since any business would label themselves to come under the bracket of ESG.

1.1.1 ESG framework in India

Socially conscious investors utilize ESG as a set of criteria for evaluating potential investments in a company's operations. When evaluating a corporation, environmental criteria take into account its effects on the environment (such as emissions or air/water pollution). Social metrics look at the company's interactions with its workers, vendors, clients, and the local communities in which it operates. Executive compensation, internal controls, audits, and shareholder rights are all covered under governance.

1. In India, ESG reporting started in 2009 with the publication of the National Voluntary Guidelines on Corporate Social Responsibility by the Ministry of Corporate Affairs, Government of India. (NVGs).

2. The top 100 listed businesses by market capitalization were required by SEBI in 2012 to submit annual reports and the Business Responsibility Report (BRR) based on NVGs. BRR was expanded to the top 1,000 listed firms in 2019 and the top 500 listed companies by market capitalization in 2015.

3. The Companies Act of 2013 mandates CSR actions for businesses that fit into the specified category.

4. For the top 500 firms that must produce BRR, SEBI implemented Integrated Reporting (IR) in 2017.

5. In 2019, the NGRBC, or National Guidelines on Responsible Business Conduct, was released.

6. Business Responsibility and Sustainability Reports (BRSR) started out as optional in 2021 before becoming necessary in FY2022-23.

Smaller listed businesses, as well as public or private businesses that are not publicly traded, are excluded by the business responsibility and sustainability reporting framework. However, these companies can include their ESG activities in the exchange filings. The customary high expenses for implementation, which could surpass any possible investment or other advantages, therefore, deter these companies from voluntarily included in the business responsibility and sustainability report.

A number of businesses are obligated as per the agreements with their shareholders and investors to educate them on ESG issues that are relevant to their operations, even in the absence of statutory requirements. Even where such reporting responsibilities are not required by regulation, such initiatives have significantly raised the attention on sustainable business models to the pertinent stakeholders.

1.2 <u>LITERATURE REVIEW</u>

Numerous studies have been conducted to examine the effects of a company's environmental, social, or governance performance on their financial performance. According to (Chelawat and Trivedi 2016) improved company ESG performance improves financial performance. Also, there is serious implications for regulators, lawmakers, company management, and investors. The investors as well as business management would reap the benefit of increase ESG performance. The paper also suggests that legislators should mandate sustainability reporting for all companies and standardise the reporting formats to allow meaningful comparisons based on the ESG elements capacity to create long-term value.

According to (Bodhanwala and Bodhanwala 2018) there is highly positive correlation between company performance metrics and sustainability (return on invested capital, return on equity, return on assets and earnings per share). According to empirical data, businesses that employ outstanding sustainable growth strategies typically report higher profitability and a significantly low gearing level. Additionally, high-rated ESG companies have considerably less leverage than low-rated ESG companies, demonstrating that they have greater exposure to equity capital markets and a consequently lower need for borrowing.. (Dalal and Thaker 2019) study shows that strong business ESG performance improves financial performance as measured by accounting and market-based metrics. The study emphasises the necessity of implementing sustainability reporting, which includes disclosing ESG scores. This would significantly enhance ethical corporate conduct and the sustainability of the wealth of the shareholders. Lastly, they also believe that there is a serious implication for regulators, lawmakers, company management, and investors. (Xie et al. 2019) discovered that in contrast to high or low disclosure levels, a moderate degree of ESG information disclosure had a considerable and advantageous impact on business efficiency. To be even more precise, at the medium disclosure level, where most observations take place, business efficiency and ESG disclosure have a favourable association. With the exception of environmental information disclosure, which shows a weakly positive relationship with corporate efficiency, a low disclosure level has a negative association with corporate efficiency.

(Lismoen and Moum 2020) examines the impact of the subgroups of environmental performance, governance performance, and social performance indicating favorable correlations between an improvement in performance and financial performance.

(Hussaini, Abraham, and Forslund 2021) studied that companies which are operating in sensitive industries, the ESG-Financial Performance association was anticipated to be more favorable than in the no sensitive category. The influence was anticipated to be more noticeable. However, According to (Jonwall, Gupta, and Pahuja 2022)there is a low level of SRI awareness, yet, the majority of investors agreed that ESG factors matter when making investment decisions and demonstrated a desire to put money into SRI outlets. The investors, however, were unwilling to accept SRI's reduced returns. For the vast majority of investors believed that, the biggest barriers to SRI investing were lower returns on SRIs, the absence of a tax benefit, a lack of knowledge about SRIs, and limited liquidity. According to the study, investors' SRI decisions are highly influenced by their knowledge on SR/ESG indexes and funds, but investors still hesitate. Nonetheless, a trend for sustainable investment strategies emerged after the COVID-19 catastrophe. Funds with higher ESG ratings performed better and exhibited greater stability.

According to (Aydoğmuş, Gülay, and Ergun 2022) firm value is favorably and strongly correlated with the overall ESG composite score. Individual Social and Governance scores and firm value show a favorable and significant association, but not a meaningful relationship for Environment ratings. The environment, social, and governance (ESG) composite score, on the other hand, has a favorable and significant link with company profitability. These results imply that a firm will benefit financially from investing in strong ESG performance in terms of value and profitability. (Sinha Ray and Goel 2023) also suggested that ESG score has a favourable correlation with a company's financial performance.

1.3 Objectives of Study

1. To study whether ESG practices implemented by businesses affect financial metrics or performance, including the direction and magnitude of that influence.

2. To examine whether ESG framework in India has a set criteria.

1.3.1 Hypothesis of Study

H0: ESG scores do not affects the financial performance of NIFTY 200 companies.

H1: ESG scores affects the financial performance of NIFTY 200 companies.

1.4 RESEARCH METHODOLOGY

In this section, the data source, sample, and variables chosen for this study are all described along with the econometric model that was put to the test.

1.4.1 Data Source and Sample

The study has collected information gathered from secondary sources. The "ESG Compendium," which CRISIL released in 2022, is where the ESG score was compiled. Nonetheless, 200 financially strong organization's financial data for the sample period were obtained from the MONEYCONTROL database. To determine the relationship between the underlying factors, an empirical analysis was conducted using the data for 2021–22. For the study, 200 listed companies were taken from NIFTY 200.

The purpose of CRISIL's ESG scores is to facilitate whether there is linkage between ESG scores and financial performance of the company. Also, these scores help financial institutions and corporations in measuring and tracking the underlying ESG risks associated with all of their financial exposures, including both stock and debt. This analysis is based on information that the businesses make publicly accessible on their websites, in annual statements sustainability reports, etc. It also incorporates other pertinent ESG data that is available to the public and generated from reliable sources, such as information provided by trade associations, authorities, and various governmental organizations. (Source: ESG Score 2022 (crisil.com))

Score range	Description
0 - 25	Scores in this category show low relative ESG performance and inadequate transparency in publishing relevant ESG data.
> 25 - 50	Scores in this category imply acceptable relative ESG performance and a fair amount of transparency in publicly disclosing relevant ESG data.
> 50 - 75	Scores in this range imply strong comparative ESG performance and an above-average level of openness in disclosing relevant ESG data.
> 75 - 100	A score in this range denotes strong relative ESG performance and a high level of public disclosure of significant ESG data.

(Source: ESG Scores | Refinitiv)

1.4.2 Research Design

The multiple regression analysis statistical method is used to empirically test the hypothesis. It has been considered to evaluate a link between the dependent and independent variable. The following definitions apply to the various variables selected for the study:

Dependent variable: The dependent variables in this study's model are defined as indicators of financial performance. Tobin's Q will be used to evaluate market performance, and ROA and ROCE will be used to evaluate accounting performance.

Tobin's Q: Tobin's Q is the proportion of a firm's market value to its inherent worth. Or, the market value of the company divided by the cost of replacing its assets. It helps to determine companies that are overpriced or underpriced. The following is one way to understand Tobin's Q: A score higher than 1 indicates that the business is overpriced. If the company receives a score less than 1, it is underpriced. The Tobin's Q is calculated using the formula below:

Tobin's Q = Market Capitalization / Total Assets

Return on Assets: Return on assets (ROA) is taken as a profitability indicator. It demonstrates how well the company makes use of its resources to turn a profit. It is believed that greater ROA is preferable and shows how well the company manages its balance sheet. The ROA is calculated using the formula below:

$$\text{ROA} = \text{Net Income / Total Assets}$$

Return on Capital Employed: Another ratio to measure the profitability of the company is by calculating Return on Capital Employed (ROCE). It is assumed that higher the ratio better it is. The ROCE is calculated using the formula below:

$$\text{ROCE} = \text{Net income / Total equity of common shares}$$

Independent variable: The independent variable in this study is the ESG Scores. The scores for the environmental, social, and governance parameters have been taken from the CRISIL data, both individually and collectively. Depending on the both quantitative and qualitative efforts made by companies on the ESG front, the score may range from zero to one hundred.

Control Variables: There are more factors that influence profitability. Thus, the additional variables that affect is the size of the company, leverage of the company and the nature of industry it is operating into.

1.5 <u>LIMITATIONS</u>

1. Data accessibility is a key challenge. Research has only used secondary sources of data, and as a result, it has inherent limitations.
2. The ESG scores are only based on data that is readily accessible to the public. They are thus vulnerable to disclosure bias.

CHAPTER 2: ANALYSIS AND DISCUSSION

2.1 Analysis of Data and Research Findings

While describing the fundamental characteristics of data, such as the summary statistics for the scale variables and data measures, descriptive statistics are helpful. These statistics could be useful in managing vast amounts of data in a research study so that it can be presented in a summary table. The descriptive statistics for the research variables used in the empirical study are displayed in **Table 1**. For a few chosen variables, the values of mean, standard deviation, skewness, kurtosis, range, minimum, and maximum are shown below. These results do not show the characteristics of a normal distribution.

In this analysis, there are 200 observations out of which few companies ESG score is not available on CRISIL website. None of the variables mean is close to zero, nor are the standard deviation values closer to one. The average ESG score across all industries is 58.99, which suggests that companies are doing above-average on the ESG front. It highlights the corporate Indian approach of recognising and giving these non-financial factors more weight. The social dimensions pillar came in second with a score of 55.55, while the governance pillar received the highest rating of 68.38. It suggests that the corporate sector lays a high importance on adhering to good governance practises. The existence of a mandatory regulatory framework for governance-related elements could be the reason for this. With the highest amount of dispersion among sustainability factors and the lowest average score for environmental initiatives, 50.72, it is clear that more consistent efforts are needed to implement green management policies and practises. A firm's maximum ESG score is as high as 76, which is seen as a strong company, and minimum score is as low as 43, which is regarded as below average.

Table 1: Summary of Descriptive Statistics

	RO_CE	RO_A	TOB_Q	ESG_SCORE	ENV_SCORE	SOC_SCORE	GOV_SCORE	SIZE_A	LEV
Mean	17.33	8.08	5.28	58.99	50.72	55.55	68.38	166313.50	71.91

Median	14.21	6.96	2.75	59.00	50.00	56.00	69.00	19572.75	0.05
Maximum	97.32	55.18	100.79	76.00	81.00	70.00	82.00	4987597.00	13731.05
Minimum	-16.24	-89.04	0.04	43.00	22.00	37.00	50.00	1364.53	-3.11
Std. Dev.	16.25	11.55	9.05	6.62	11.25	7.23	6.89	529865.40	971.46
Skewness	1.67	-2.20	6.74	0.07	0.27	-0.30	-0.56	6.59	14.00
Kurtosis	7.96	28.55	65.76	2.69	2.66	2.55	3.04	53.56	197.39
Jarque-Bera	298.12	5599.79	34337.08	0.91	3.27	4.40	9.85	22748.15	321432.10
Probability	0.00	0.00	0.00	0.63	0.19	0.11	0.01	0.00	0.00
Sum	3466.14	1615.24	1056.90	11090.00	9535.00	10443.00	12855.00	33262706.00	14382.93
Sum Sq. Dev.	52572.04	26562.09	16298.23	8197.98	23656.06	9782.57	8882.19	5.59E+13	1.88E+08
Observations	200	200	200	188	188	188	188	200	200

Table 2 indicates the correlation between the selected variables. The correlation between the ESG score and its components has been found to be greater than 0.5; thus, the environmental, social, and governance scores have correlation values with the ESG as 0.89, 0.66, and 0.68, respectively. Therefore, different regression models have been run in order to avoid the possibility of multicollinearity among independent variables.

Table 2: Correlation

Correlation	RO_CE	RO_A	TOB_Q	ESG_SCORE	ENV_SCORE	SOC_SCORE	GOV_SCORE	SIZE_A	LEV	NOI_AA	NOI_AUTO	NOI_CP	NOI_EC	NOI_FIN	NOI_FMCG	NOI_HC	NOI_IT	NOI_MEDIA	NOI_MM	NOI_PAINTS	NOI_PHARMA	NOI_RE	NOI_RETAIL	NOI_TEL
RO_CE	1.00																							
RO_A	0.68	1.00																						
TOB_Q	0.28	0.19	1.00																					
ESG_SCORE	0.06	0.12	-0.08	1.00																				
ENV_SCORE	-0.03	0.03	-0.10	0.89	1.00																			
SOC_SCORE	-0.01	0.06	-0.23	0.66	0.52	1.00																		
GOV_SCORE	0.19	0.19	0.11	0.68	0.35	0.20	1.00																	
SIZE_A	-0.21	-0.16	-0.17	0.24	0.19	0.37	0.07	1.00																
LEV	0.24	0.09	0.07	0.08	0.07	0.03	0.06	-0.02	1.00															
NOI_AA	-0.04	-0.01	-0.02	-0.18	-0.17	-0.18	-0.05	-0.06	-0.02	1.00														
NOI_AUTO	-0.05	-0.01	-0.05	0.04	0.07	-0.11	0.08	-0.06	0.00	-0.05	1.00													
NOI_CP	0.00	-0.04	0.16	-0.04	-0.02	-0.06	-0.04	-0.06	-0.03	-0.07	-0.08	1.00												
NOI_EC	-0.03	0.00	-0.02	-0.03	-0.02	-0.04	-0.01	-0.02	-0.02	-0.05	-0.06	-0.08	1.00											
NOI_FIN	-0.30	-0.27	-0.17	0.29	0.32	0.33	0.03	0.43	-0.04	-0.11	-0.12	-0.18	-0.13	1.00										
NOI_FMCG	0.37	0.24	0.18	0.06	0.06	-0.19	0.17	-0.08	0.26	-0.06	-0.06	-0.10	-0.07	-0.15	1.00									
NOI_HC	-0.04	-0.02	-0.01	-0.04	-0.02	-0.07	-0.03	-0.04	-0.01	-0.03	-0.03	-0.04	-0.03	-0.07	-0.04	1.00								
NOI_IT	0.28	0.28	0.05	0.30	0.24	0.17	0.27	-0.07	-0.02	-0.06	-0.06	-0.09	-0.07	-0.14	-0.07	-0.03	1.00							
NOI_MEDIA	0.04	0.06	0.12	-0.14	-0.08	-0.09	-0.19	-0.03	-0.01	-0.02	-0.02	-0.03	-0.03	-0.05	-0.03	-0.01	-0.03	1.00						
NOI_MM	0.22	0.18	-0.07	-0.13	-0.13	0.07	-0.18	-0.02	-0.01	-0.04	-0.04	-0.07	-0.05	-0.10	-0.06	-0.03	-0.05	-0.02	1.00					
NOI_PAINTS	0.07	0.05	0.07	0.04	-0.01	-0.04	0.12	-0.03	-0.01	-0.02	-0.02	-0.03	-0.03	-0.05	-0.03	-0.01	-0.03	-0.01	-0.02	1.00				
NOI_PHARMA	-0.02	0.03	-0.04	0.02	-0.06	0.14	0.06	-0.09	-0.02	-0.06	-0.07	-0.10	-0.07	-0.16	-0.08	-0.04	-0.08	-0.03	-0.06	-0.03	1.00			
NOI_RE	-0.11	-0.05	-0.05	-0.04	0.00	-0.10	-0.05	-0.06	-0.02	-0.05	-0.06	-0.08	-0.06	-0.13	-0.07	-0.03	-0.07	-0.03	-0.05	-0.03	-0.07	1.00		
NOI_RETAIL	-0.09	-0.05	0.08	-0.22	-0.17	-0.31	-0.06	-0.05	-0.01	-0.03	-0.04	-0.06	-0.04	-0.09	-0.05	-0.02	-0.04	-0.02	-0.03	-0.02	-0.05	-0.04	1.00	
NOI_TEL	-0.06	-0.16	-0.03	-0.02	-0.01	-0.03	-0.01	-0.03	-0.02	-0.04	-0.04	-0.07	-0.05	-0.10	-0.06	-0.03	-0.05	-0.02	-0.04	-0.02	-0.06	-0.05	-0.03	1.00

Findings Regarding ESG Score

Table 3: Dependent Variable: TOB_Q				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	7.3233	7.9259	0.9240	0.3567
ENV_SCORE	-0.0291	0.0718	-0.4054	0.6857
SOC_SCORE	-0.2762	0.1127	-2.4514	0.0152
GOV_SCORE	0.2207	0.1021	2.1621	0.0319
SIZE_A	-1.82E-06	1.55E-06	-1.1739	0.2420
LEV	0.0007	0.0007	1.0012	0.3181
R-squared	0.39109		**F-statistic**	3.647987
Adjusted R-squared	0.26612		**Prob(F-statistic)**	0.003605

The results of the multiple regression are shown in **Table 3** with TOB_Q being as a dependent variable and a market-based indicator of financial performance. As per output, R-square is 39%, and adjusted R-square is 26%. It can be concluded that specific independent variables account for 39% of the variability in dependent variables. At 1% of significance, F-value is also statistically significant. This suggests that the model is well-fit to the data and has the ability to explain the underlying relationship between the independent and dependent variables.

According to output, the coefficient value of SOC_SCORE and GOV_SCORE has shown out to be extremely statistically significant and positive. It demonstrates that businesses with a higher level of adherence to governance factors have better market valuations and are seen as preferred investment opportunities by investors. Other things being equal, the results show that for every unit higher in the ESG score, the market value of the company increases. As a result, the null hypothesis "ESG practices do not affect financial performance of companies" is rejected. Hence, it proves that more effective ESG practices enhance a company's financial success, which in turn tends to attract more investors.

Tables 4 and 5 show the results of multiple regression using the accounting metrics RO_CE and RO_A, respectively. This illustrates that the ESG_G coefficient value is positive and statistically significant for the dependent variables, RO_CE and RO_A, at 5% and 10%, respectively, and are consistent with the findings of a positive and statistically significant relationship between ESG practises and FP of companies by numerous studies conducted by researchers globally.

Table 4: Dependent Variable: RO_CE				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-18.0909	13.4935	-1.3407	0.1817
ENV_SCORE	-0.1732	0.1222	-1.4172	0.1581
SOC_SCORE	0.1960	0.1918	1.0219	0.3082
GOV_SCORE	0.5013	0.1737	2.8854	0.0044
SIZE_A	-8.25E-06	2.64E-06	-3.1202	0.0021
LEV	0.0038	0.0011	3.3592	0.0010
R-squared	0.146502		**F-statistic**	6.248036
Adjusted R-squared	0.123055		**Prob(F-statistic)**	0.000023

Market-based measures may be regarded as more trustworthy as compared to accounting indicators because they frequently capture investors' attitudes and perceptions regarding the prospects for the present and the future.

Table 5: Dependent Variable: RO_A				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-22.5665	10.0504	-2.2453	0.0259
ENV_SCORE	-0.0793	0.0910	-0.8712	0.3848
SOC_SCORE	0.2179	0.1429	1.5254	0.1289
GOV_SCORE	0.3415	0.1294	2.6392	0.0090
SIZE_A	-5.31E-06	1.97E-06	-2.6956	0.0077
LEV	0.0009	0.0008	1.0437	0.2980
R-squared	0.083467		**F-statistic**	3.314893
Adjusted R-squared	0.058288		**Prob(F-statistic)**	0.006867

The negative control variables, SIZE_A and LEV in **Table 5**, suggest a poor association between the entity's performance and all three measures of the dependent variables. When measured by TOB_Q and RO_A, the coefficient of the variable SIZE_A is statistically significant at 1%. It may be inferred that as a company's size increased, organisational inefficiencies reduced its value. Similar to LEV, when regressed with RO_A, LEV measuring the influence of capital structure on business financial performance is statistically significant at 1%. It suggests that increased debt levels on the part of the company are not welcomed by the shareholders.

The results of statistically significant F-values for each of the three financial performance metrics show that there is a correlation between nature of industries and its financial performance. Thus, in light of this, it can be claimed that a company's industry of operation is a significant cause of variation in its financial performance.

CHAPTER 3: CONCLUSIONS & SUGGESTIONS

3.1 CONCLUSIONS

Although ESG trends were not widely recognised before, they are now becoming more and more important in emerging economies like India. This is because a wide range of stakeholders are beginning to recognise the benefits of ESG-based investing. Numerous studies have been conducted to look into how ESG factors affect a company's financial performance. However, the results showed conflicting findings regarding how the underlying variables related to one another. Therefore, an effort has been made in this paper to identify and comprehend the relationship between the two issues, in addition, the importance of non-financial factors, such as ESG practises, in influencing the FP of a firm has been evaluated.

In the regression analysis, individual scores of each of the three ESG pillars have been taken. The empirical investigation has proven that the favourable effects of ESG variables on Financial Performance (FP) are statistically significant. Governance practises are discovered to have the greatest individual impact on FP, followed by social and environmental elements. The research has shown that excellent ESG practises not only improve financial performance but also help fund providers, boards of directors, regulators, and society direction in making decisions. Secondly, ESG investing is not currently standardised in the Indian market. Investors frequently refer to their actions under several labels, including "impact investing," "sustainable investing," and "socially responsible investing." They typically refer to their measuring criteria and reporting methods as "responsible investing."

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