

SUSTAINABLE FINANCE IN INDIA: IMPACT OF ESG ADOPTION ON FIRMS' PERFORMANCE AND INVESTMENT DECISIONS

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ABSTRACT

This paper will be an attempt to investigate how adoption of ESG factors can influence the performance of firms and the choice of investors in India. In recent years the adoption of ESG factors has acquired an immensely significant role in India with the growing regulatory pressures like Business Responsibility and Sustainability Reporting (BRSR). A quantitative research approach is used in this work to address the secondary data as researched on some companies that are listed in the Nifty 50 list of 2021-2025. The evaluation of the correlation between the adoption of ESG factors and the investor participation by the number of shareholders increase is also a part of this study. This paper is elaborate in both its use of financial performance and investor choice and using ESG factor performance in the evaluation of the wider implications of adopting ESG factors. The research is likely to add to the discussion on whether the adoption of ESG factors causes the financial value creation, or an increased financial cost to the company. This research can also be applied to determine the implications of ESG factor performance in terms of investor decision and its consequences in other emerging economies such as India where adoption of the ESG factors is still at its infancy.

Keywords Sustainable Finance, ESG Factors, Financial Performance, Investment Decisions, Investor Participation, Indian Stock Market, Nifty 50

1. INTRODUCTION

The sole interest of corporations was to make additional and additional profits and raise the prosperity of their shareholders previously. However, today, everything is slowly evolving. It is time that companies should become more responsible to both the environment and the society besides the money and profits. As a result of these shifts in the manner of doing business, the notion of sustainable finance has been introduced. The three factors that are considered in the case of sustainable finance are the environmental, social and governance factors. Pollution, environmental change and consumption of natural resources are some of the issues that are covered under environmental factors. The social factors are associated with how a company acts and treats its associates and society. Governance factors are associated with the manner in which the company is governed and functioning. These would be crucial when it comes to learning how a corporation is performing not only in terms of finance and profit, but also sustainability and responsibility. Investors are also considering the environmental, social, governance aspect of the companies they are ready to invest in in recent times. Formerly, investors would only consider the profits and the amount of money they would make out of the company. However, now the situation is slowly evolving. Investors are currently also worried about how the company is acting and how it is responsible to the environment and society. When companies are good in terms of their ESG

practices, they will be more likely safe and sound in the long-run. Lack of being good in this aspect may lead to issues like legal complications, poor reputation, and loss of profits by companies. ESG is becoming more applicable in India, where numerous regulations are introduced and people have become more conscious of ESG. Although ESG is spreading, the questioning of the real effect of ESG is rather misunderstood by numerous individuals. Most studies say that ESG assists in the financial performance of a company, but other studies say that ESG drives the cost of a company hence lowering its profits. Moreover, not all studies take into account the effects of ESG on the investor relations, but only financial performance. This research, thus, seeks to learn the two aspects of ESG. This paper will attempt to determine how the ESG scores affect the financial performance and the number of investors of a specific firm. The research will be conducted on the basis of chosen firms, including Nifty 50, in particular, as it will provide a more meaningful insight into ESG. In general, the purpose of the proposed research is to determine whether ESG serves to add value to a company or not, and whether ESG is actually an element of investment decisions.

2. REVIEW OF LITERATURE

Many studies have focused on the connection between ESG practices and business performance even though the results are contradictory. Park S. R. and Jang J. Y. hold that the ESG considerations play a vital role in the process of decision-making regarding investing. Halid S. Rahman R. A., Mahmud R. Mansor N., and Wahab R. A. state that the ESG may influence the performance of a company negatively, neutrally, or positively.

Research conducted by Wu S. Li X. Du X. and Li Z. and Nguyen D. T. Hoan T. G. and Tran H. G. suggests that strong ESG practices boost the value and financial performance of the firm. In the case of the Indian context, higher rating of ESG relates to higher financial performance, as observed by the research conducted by Lunawat A., Lunawat D., Aggarwal A., Aggarwal I., and Gupta A. Soni T. K. found that ESG investments are more costly.

Moreover, Banerjee S. Mitra A. and Aggarwal S. mentioned that the influence of ESG would not be necessarily huge in the emerging economies. Naveed M. Sohail M. K. Abdin S. Z. Awais M., and Batool N. have found out that ESG has a role in investment decisions and Agarwal S. confirmed the importance of ESG in business success. Overall, the literature and the research on the topic are contradictory and few studies combine the behavior of investors and financial success, especially in India.

Research Gap

Based on the review of the literature on past studies, it is evident that the practices of ESG and their business outcomes have been widely researched. The results are not clear, however, with some studies showing a positive correlation whereas others show negative or a null impact. This begs the question as to whether or not ESG does actually increase financial success. Another major gap is that most of the studies are done regarding the industrialized states such as the United States and Europe. Especially recent progression such as introduction of Business Responsibility and Sustainability Reporting (BRSR) has not witnessed many studies being carried out in the Indian context. This is a critical area that needs to research ESG alone since India is an emerging market that exhibits unique investment behavior and a regulatory framework. Also, much of the research merely examines financial performance indicators such as firm value, ROA and ROE. Not many studies have considered the financial performance and investor behavior. Investor involvement is essential as this will show how the market reacts to the ESG policies.

Objectives of the Study

- To investigate the effect of the ESG score on the financial performance of some businesses in terms of such metrics as stock returns, return on equity (ROE), and return on assets (ROA).
- To assess the changes in the number of investors in the selected companies to examine how ESG adoption affects the decisions of investors.
- To explore the overall correlation in the Indian context of investor involvement, investment performance, and ESG performance.

3. RESEARCH METHODOLOGY

Data Collection

The secondary information cited in the study was collected using credible and open sources. The sources of the ESG-related data are official disclosures, sustainability reports, and the annual reports of firms. The sources of financial data are financial statements and stock market databases, in which ROA, ROE, and stock returns are available. The shareholding pattern reports of the companies give information about the investor engagement as well as the number of investors. Between 2021 and 2025, the statistics comprise a sample of Nifty 50 companies.

Variables of the Study

The ESG score is the main independent variable in the study as it demonstrates the level of sustainability performance of the companies in question. Dependent variables are financial performance measures such as stock returns, return on equity (ROE) and return on assets (ROA). Moreover, the participation of investors is also measured in terms of the number of investors, and this is also taken as a dependent variable.

Hypotheses

The following theories form the basis of the study

H₀: Financial performance (ROA, ROE, and stock returns) is not significantly impacted by the ESG score.

H₁: Financial performance (ROA, ROE, and stock returns) is significantly impacted by the ESG score.

H₀₂: Investor involvement is not significantly impacted by ESG adoption.

H₁₂: Investor involvement is significantly impacted by ESG adoption.

Statistical Methods

The data are examined using basic statistical processes in the study. To summarize the data and understand its basic characteristics, the descriptive statistics are utilized. Correlation analysis is used to determine the correlation between the dependent variables and the ESG score. Regression analysis is used to measure the impact of ESG performance on both the financial performance and participation of their investors.

4. ANALYSIS

Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
ESG Score	60.90	7.81	44	82
Stock Return	0.72	6.70	-0.55	95
No of investors	17,25,714	34,28,940	0	2,50,00,000

The chosen companies' average ESG score is approximately 60.9, indicating a moderate level of ESG performance. There is a lot of diversity in the stock returns, which suggests that different companies perform differently in the market. In a similar vein, the number of investors varies greatly, indicating that different firms have different levels of investor interest. Overall, the data demonstrates that financial and market variables vary greatly, while ESG rankings are often consistent.

Table 1: Correlation Analysis

Variables	Stock return	No of Investors	ESG Score
Stock Return	1	-0.02	-0.19
No of Investors	-0.02	1	0.09
ESG Score	-0.19	0.09	1

The ESG score and every other variable have a very weak link, according to the correlation data. There is a very weak positive correlation between ESG and ROA (0.11) and the number of investors (0.09). It has a little negative correlation with stock returns (-0.19) and ROE (-0.10).

This suggests that neither financial performance nor investor engagement in the dataset are strongly correlated with ESG performance. Overall, the correlation results indicate that the impact of ESG is either minimal or obscure.

Table 2: Regression Analysis

Dependent Variable	ESG Coefficient (β_1)	R ²	p-value
ROA	+0.0012	0.013	0.434
ROE	-0.0018	0.009	0.495
Stock Return	-0.0036	0.038	0.176
No of Investors	+40130	0.008	0.534

According to the regression results, none of the dependent variables are statistically significantly affected by the ESG score. All the p-values being above 0.05, the results do not show strong relationship between ESG scores and selected variables. A negative trend for ROE and stock returns is shown by the coefficients, while a slight positive trend is observed between ROA and number of investors. As a result, the null hypothesis is supported showing that financial performance is not affected by ESG.

The overall discussion concludes that ESG performance does not have a significant effect on the decisions of investors and financial success of the selected companies. The results show that the implementation of ESG in India is still young and may not significantly influence the behavior of investors and financial performance.

5. FINDINGS

- The ESG scores of the selected organizations have a moderate level of sustainability performance compared to the financial indicators.
- As per the correlation analysis, there is no clear relationship observed between the ESG score and financial performance indicators such as the stock returns, ROA and ROE.
- The ESG score shows a positive trend with ROA and the number of investors, which is not strong enough to draw any major conclusions.
- The relationship between ESG scores and stock returns is low and insignificant.
- As all the p-values exceed 0.05, the regression results demonstrate that the ESG score does not have a statistically significant impact on investor participation or financial performance.
- ESG is an important element that influences the degree of investor engagement, but the amount of investors differs significantly across firms.
- Overall during the study period, the implementation of ESG in the selected companies did not have a significant effect on investment decisions or the performance of the firm.

6. CONCLUSION

This study explores the impact of ESG practices on investment decisions and firm performance in the Indian context which leads to the conclusion that neither investor engagement nor financial performance metrics like ROA, ROE, and stock returns are significantly impacted by the ESG score. ESG is thought to be crucial for long-term sustainability and ethical company practices, however this study suggests that it has little immediate effect on financial results and investor behavior. This could be because investors may not completely take ESG considerations into account when making investment decisions because ESG adoption in India is still in its early stages.

The findings also imply that rather than using ESG as a tactic to boost financial performance, businesses may be implementing it more for compliance and reporting needs. As a result, although ESG has theoretical significance, its use in the Indian market is still evolving.

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