Top 150 listed entities improve ESG performance in FY21

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The top 150 listed entities by market cap have shown marked improvement in their ESG performance over the last year, given their focus on sustainability reporting and ESG metrics. Applying materiality pertinent to these businesses reveal improved scores on ESG metrics around emissions, push towards renewable energy, diversity and inclusion and key governance issues such as independence of audit committees and better board functioning.

However, less than 40% of the Nifty 500 companies have any form of sustainability reporting today, shows an analysis by CARE Advisory, Research and Training Limited (CARE Advisory). This is despite SEBI's push on non-financial reporting through the business responsibility and sustainability reporting framework (BRSR) which will be mandatory by FY22-23.

Some of the key pain points when it comes to conducting ESG assessments in India, is the lack of data, gaps in disclosures, issues in data quality and adhoc reporting on environmental, social & governance parameters. SEBI's push towards compulsory reporting of non-financial reporting, for top 1000 listed entities, through the BRSR should tackle this to some extent. While the sands are slowly but surely shifting driven by a realisation that an ESG orientation can potentially attract global capital, corporates would do well to make ESG as the bedrock of their business strategies.

Service sectors like IT and Financials lead the way in terms of disclosures and their focus on ESG goals, largely due to their global presence and attractiveness for global capital, which calls for greater scrutiny from global investors. In fact these sectors have a deeper integration of ESG into the business strategy, while other sectors while having a focus on compliance and policy, lag in terms of performance and strategy.

Limited environmental impact and significant focus on social themes further boost the scores for these sectors. Amongst the manufacturing sector, sectors like Auto, steel and cement have shown a focus especially on the environment themes, with reduction in emission intensity and shift toward renewable power, thus seeing an improvement on ESG scores over the last two years. In fact, there is a shift of almost 10%, on average, towards renewable power from conventional sources, for the top 150 listed entities.

On social themes too, there has been an improvement over last year, with diversity and inclusion being a key theme that companies have embraced. Sectors leading this agenda are IT, Financials, Real Estate and Communications, having a diversity of over 25% in their workforce. At the board level too, over 60% of the companies analysed have 2 or more women on the board, up from 55% last year.

Also evident is the move towards adoption of global best practices in governance, such as ensuring the independence of the Board with a non-executive Chairman, and having an audit committee comprising of only independent directors. Even sectors like Real Estate which are promoter run, have shown a stark improvement on these governance metrics.

With SEBI's push toward improved non-financial sustainability reporting we should see companies addressing issues on data gaps, lack of disclosures and adhoc reporting. This in turn is expected to improve their ESG performance by compelling them to bring in discipline and forethought in their compliance, policies and performance on the E, S & G pillars of ESG. Sustainability reporting would include reporting on environment, social and governance themes through Integrated annual reports, Sustainability reports, BRSR or Corporate social responsibility reports.

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