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The Impact of ESG Investments on Corporate Financial Performances in India: A Sectoral Analysis

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ABSTRACT: This research investigates the impact of Environmental, Social, and Governance (ESG) investments on the financial performance of Indian corporations, with a particular emphasis on sectoral variations across five prominent industries: Technology, Financial Services, Energy, Industrial Manufacturing, and Fast-Moving Consumer Goods (FMCG). By analyzing panel data from 150 companies listed on the National Stock Exchange (NSE) between 2018 and 2023, the study utilizes correlation and panel regression methods to examine the relationship between ESG scores and key financial metrics, including Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q.

The findings indicate a strong positive correlation between ESG performance and financial outcomes in the Technology and Financial Services sectors. Companies with high ESG ratings in these sectors consistently demonstrated superior profitability and market valuation, suggesting that ESG investments can serve as a strategic differentiator. In contrast, the Energy and Industrial Manufacturing sectors exhibited mixed or weak correlations, likely due to the high costs associated with environmental compliance and capital-intensive operations.

The FMCG sector showed a moderate but growing alignment between ESG engagement and improved net margins, indicating that ESG considerations are becoming increasingly important for companies in this sector. These sectoral trends imply that ESG investments can enhance corporate resilience and long-term value creation, but their effectiveness depends on industry-specific risks and maturity levels.

The study's conclusions have practical implications for investors, corporate strategists, and policymakers seeking to align financial returns with sustainable development goals in emerging markets like India. By understanding the sector-specific dynamics of ESG investments, stakeholders can make informed decisions that balance financial performance with environmental and social responsibility.

Overall, this research contributes to the growing body of evidence on the benefits of ESG integration in corporate decision-making and highlights the need for a nuanced approach to ESG investing that takes into account industry-specific factors. By adopting ESG practices tailored to their unique risks and opportunities, companies can create long-term value for stakeholders while contributing to sustainable development goals.

KEYWORDS: ESG, financial performance, India, NSE-listed companies, sectoral analysis, sustainability, ROA, ROE

I. INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) considerations have transitioned from peripheral concerns to central elements in corporate strategy and investment decision-making. This shift is particularly pronounced in emerging economies like India, where sustainable development goals intersect with rapid economic growth. The Indian corporate landscape has witnessed a surge in ESG integration, driven by regulatory mandates such as the Business Responsibility and Sustainability Reporting (BRSR) framework introduced by the Securities and Exchange Board of India (SEBI) in 2021. This framework mandates the top 1,000 listed companies to disclose ESG-related information, thereby institutionalizing sustainability reporting in India.

Despite these advancements, the relationship between ESG investments and corporate financial performance (CFP) in the Indian context remains underexplored, especially from a sectoral perspective. While global studies have established a positive correlation between ESG practices and financial metrics, the applicability of these findings to India's diverse industrial sectors is not straightforward. Each sector presents unique challenges and opportunities concerning ESG integration, necessitating a nuanced analysis.

Recent literature underscores the importance of sector-specific studies in understanding ESG's impact. For instance, a study published in the Indian Journal of Corporate Governance highlights that sectors such as Information Technology and Financial Services exhibit a stronger alignment between ESG initiatives and financial performance compared to traditional sectors like Energy and Manufacturing. This disparity is attributed to difference in regulatory pressures, stakeholder expectations, and the inherent nature of business operations across sectors.

Furthermore, empirical analyses of BSE 100 companies reveal that sectors like Banking, Automobile, and Financial Services have a higher concentration of firms actively engaging in ESG activities. These sectors not only demonstrate better ESG scores but also show a positive trend in financial performance metrics such as Return on Assets (ROA) and Return on Equity (ROE).

Given this backdrop, the present study aims to investigate the impact of ESG investments on corporate financial performance across different sectors in India. By employing a panel data analysis of 150 NSE-listed companies spanning from 2018 to 2023, this research seeks to Assess the correlation between ESG scores and financial performance indicators (ROA, ROE, and Tobin's Q) across various sectors, Identify sector-specific trends and disparities in ESG integration and its financial implications, Provide insights for policymakers, investors, and corporate leaders to tailor ESG strategies that align with sectoral dynamics and enhance sustainable value creation.

By addressing these objectives, the study contributes to the growing body of literature on ESG in emerging markets and offers practical recommendations for enhancing ESG effectiveness in India's diverse industrial landscape.

II. LITERATURE REVIEW

The relationship between Environmental, Social, and Governance (ESG) investments and corporate financial performance (CFP) has been extensively researched globally, with a growing body of evidence suggesting a predominantly positive or neutral correlation between ESG practices and financial outcomes. However, results often vary across different contexts and sectors, highlighting the need for nuanced analysis.

Global evidence supports the financial benefits of ESG integration, with research aggregating over 2,000 studies finding that approximately 90% of cases showed a positive or nonnegative ESG-financial performance link. Theoretical frameworks such as Stakeholder Theory and Resource-Based View provide a foundation for understanding this relationship, suggesting that sustainable practices can foster reputational capital, reduce risk exposure, and ensure long-term returns.

In emerging markets like India, ESG adoption is growing due to regulatory frameworks and increasing investor pressure. The Securities and Exchange Board of India (SEBI) has introduced the Business Responsibility and Sustainability Reporting (BRSR) framework, encouraging companies to disclose their ESG performance. However, ESG reporting in India remains inconsistent and is often concentrated among large-cap firms. Studies have shown that Indian firms with high ESG ratings tend to exhibit improved investor confidence and resilience during periods of market volatility.

Sector-specific analysis reveals varying ESG materiality profiles and stakeholder pressures.

Technology and Financial Services: These sectors often report stronger ESG-financial performance alignment due to lower environmental costs and higher scrutiny on governance and social criteria. Companies in these industries prioritize data protection, diversity, and ethical business conduct to build trust and reputation.

Energy and Industrial Manufacturing: These capital-intensive sectors face significant challenges in implementing ESG strategies due to high upfront costs and regulatory burdens. While long-term benefits such as improved risk mitigation and enhanced brand reputation are recognized, short-term financial performance may not immediately reflect ESG investments.

Fast-Moving Consumer Goods (FMCG): Consumer-driven sectors are increasingly witnessing returns from ESG investments as socially and environmentally conscious consumer behaviour becomes more prevalent. ESG branding and sustainable packaging have shown direct links to revenue growth and brand loyalty, making ESG considerations a key

differentiator in competitive markets. Understanding these sector-specific ESG dynamics is crucial for informed decision-making and long-term value creation. By adopting ESG practices tailored to their unique risks and opportunities, companies can create sustainable value for stakeholders while contributing to broader environmental and social goals.

Indian Context and Research Gaps

In India, despite the rapid growth of ESG investing, there's a notable lack of academic research exploring the nuanced relationship between ESG performance and corporate financial performance (CFP) at the sectoral level. Existing studies often focus on aggregate ESG indices or mutual fund data, failing to capture firm-level variations and sector-specific differences in ESG materiality. This limitation restricts the applicability of findings across the Indian corporate landscape.

A significant challenge lies in the inconsistency of ESG rating methodologies used by different agencies, making cross-firm and cross-sector comparisons challenging. Moreover, many Indian companies have only recently started ESG reporting, resulting in limited and inconsistent data. Furthermore, there's a lack of empirical research analyzing the individual impact of Environmental, Social, and Governance pillars on financial outcomes within specific sectors.

Contribution of the Present Study

This study addresses these gaps by:

Conducting a firm-level panel data analysis (2018-2023) of 150 NSE-listed companies across five sectors: Technology, Financial Services, Energy, Industrial Manufacturing, and FMCG.

1. Examining the correlation between ESG scores and key financial metrics (ROA, ROE, and Tobin's Q).
2. Providing sector-specific insights into the impact of ESG engagement on financial outcomes.

By focusing on sectoral variability and using recent data, this research enhances understanding of how ESG strategies translate into performance under diverse business conditions in India's evolving regulatory landscape.

III. RESEARCH METHODOLOGY

3.1 Research Design

This study uses a quantitative panel data approach that combines descriptive and causal research designs to examine the influence of ESG investments on corporate financial performance in Indian sectors. Descriptive analysis measures ESG adoption trends, whereas causal inference investigates the relationships between ESG scores and financial variables.

3.2 Sample and Scope

The study covers 150 businesses listed on the National Stock Exchange (NSE) in five sectors: technology, financial services, energy production, industrial manufacturing, and fast-moving consumer goods. The time span chosen is 2018–2023, which covers six fiscal years. Companies were selected using stratified purposive sampling to ensure sectoral representation and data completeness.

3.3 Data Sources

This analysis is solely based on secondary data sourced from reputable financial and ESG databases. ESG scores were derived from globally recognized institutions such as MSCI, Sustainalytics, and CRISIL, as well as specific firm sustainability and corporate responsibility reports. Financial data, including return on assets and equity, were collected from Money control, CMIE Prowess, and the selected firms' annual reports. Regulatory disclosures, particularly those pertaining to ESG compliance and reporting criteria, were verified using SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework.

3.4 Variables and Measurement

The dependent variables used to evaluate company financial performance were Return on Assets (ROA) and Return on Equity (ROE). Tobin's Q was employed as an extra measure of market value. The major independent variable was the ESG score, which was normalized from 0 to 100 and obtained from ESG rating agencies. Control variables were business size (as defined by market capitalization), firm age (years since incorporation), and sectoral classification to control for industry-specific effects.

3.5 Analytical Techniques

To investigate the association between ESG performance and financial outcomes, the study used a combination of descriptive and inferential statistical techniques. Descriptive statistics, such as mean and standard deviation, were utilized to determine the distribution and trend of ESG values across industries. Pearson's correlation coefficient was used to determine the linear link between ESG scores and financial performance metrics. Furthermore, panel data regression models with fixed and random effects were used to account for firm- and timespecific variability. Sector-specific regressions were used to compare ESG effect across industries. All statistical analyses were carried out using Microsoft Excel and SPSS version 26.0.

3.6 Data Quality and Validation

To assure the dataset's reliability, several validation procedures were used. To ensure consistency, ESG scores were cross-verified across rating agencies. Financial performance measurements were compared against audited corporate statements to eliminate the possibility of reporting inaccuracies. Firms having missing or inconsistent data for two or more financial years between 2018 and 2023 were eliminated from the final sample to ensure data robustness and correctness.

IV. RESULTS AND DISCUSSION

4.1 Overview of ESG and Financial Performance Trends

The examination of 150 NSE-listed businesses over a five-year period (2018-2023) demonstrates significant sector-specific patterns in Environmental, Social, and Governance (ESG) performance and its relationship to financial outcomes. These findings highlight the necessity for sector-specific ESG strategies, as the impact of ESG activities varies dramatically among industries depending on operational models, regulatory exposure, and stakeholder expectations.

4.2 Sector-Wise Analysis

Technology Sector

Technology corporations, particularly Infosys and Tech Mahindra, have consistently outperformed in ESG criteria. These companies benefited from well-established governance frameworks, robust digital openness, and proactive ESG reporting. The data showed a high positive link between ESG scores and financial measures including Return on Assets (ROA) and Tobin's Q, which is a proxy for market valuation. This shows that improved governance and sustainability reporting boosted investor confidence, resulting in value advantages. The asset-light characteristics of technology companies also allowed ESG gains to be more clearly reflected in financial success, compounding the beneficial relationship.

Financial services

The financial services sector, which includes banks and non-banking financial corporations (NBFCs) such as ICICI Bank and HDFC, demonstrated faster ESG integration beyond 2020.

This was fueled in part by regulatory nudges and increased scrutiny of risk management procedures following the COVID-19 pandemic. ESG scores exhibited moderate to substantial associations with metrics such as Return on Equity (ROE) and Tobin's Q. Enhanced governance, enhanced customer data protection, and sustainable lending practices all helped to improve investor perception and capital efficiency. ESG elements are increasingly influencing credit risk and investment ratings, thus financial institutions have intentionally linked their frameworks to improve both reputation and revenue.

Energy Sector

The energy industry presented a more nuanced picture, with varying ESG performance across subsegments. Renewable energy companies outperformed fossil-fuel-based competitors in ESG ratings, demonstrating their natural congruence with environmental goals. However, the relationship between ESG rankings and financial measures was weak or inconsistent. This is due to the capital-intensive nature of energy projects and the delayed financial returns on sustainability initiatives. Furthermore, regulatory compliance and transition expenses reduce the immediate financial impact of ESG projects. Thus, while ESG may not improve shortterm profitability in this sector, it is critical for long-term viability and risk management.

Industrial Manufacturing

In the industrial manufacturing sector, ESG adoption appears to be driven more by compliance than by strategy. The relationship between ESG scores and financial outcomes was minimal. Many organizations in this market are still in the early stages of ESG integration, with an emphasis on achieving minimum regulatory obligations. The high initial expenses of integrating sustainable practices and technologies may have an impact on shortterm financial success. Nonetheless, if ESG initiatives progress beyond compliance, the sector will profit in terms of operational efficiency, supply chain resilience, and reputation in the long run.

FMCG Sector

Fast-moving consumer goods (FMCG) firms, such as Hindustan Unilever (HUL) and ITC, demonstrated demonstrable gains in ESG performance, owing to measures in sustainable sourcing, water management, and environmentally friendly packaging. A moderate link was found between ESG scores and financial metrics such as ROA and profit margins. These companies used their consumer-facing nature to develop strong brand equity through visible ESG practices, which therefore influenced customer loyalty and sales success. The results support the notion that ESG initiatives in consumer sectors can directly convert into financial value by improving market positioning and stakeholder trust.

ESG impact is largely sector-dependent, therefore businesses must design nuanced plans that address industry-specific issues and opportunities. Tailored ESG frameworks not only improve compliance, but they also serve as drivers of competitive advantage and long-term financial performance.

4.3 Cross-Sectoral Comparison

Sector	Average ESG Score	ROA Correlation	ROE Correlation	Tobin's Q
Technology	82.4	+0.68	+0.63	+0.71
Financial Services	78.1	+0.51	+0.55	+0.60
Energy	69.3	+0.31	+0.29	+0.34
Manufacturing	64.8	+0.20	+0.18	+0.25
FMCG	75.6	+0.42	+0.39	+0.45

4.4 Interpretation and Implications

The findings show that ESG's impact on financial success varies by sector. High-performing sectors (tech and finance) show that mature governance and stakeholder engagement procedures boost investor confidence and operational efficiency. In contrast, resourceintensive industries must balance ESG implementation costs and short-term profitability. For investors, this emphasizes the importance of contextualizing ESG rankings, taking into account industry maturity and strategic alignment. Sector-specific disclosure guidelines could help firms capture and communicate ESG value more effectively, according to lawmakers.

V. CONCLUSION

Using panel data from 2018 to 2023, this study looked at the relationship between ESG (Environmental, Social, and Governance) investments and firm financial performance in five key Indian sectors. The study found that, while ESG adoption is progressively expanding across the Indian business landscape, its financial impact differs greatly by industry, emphasising the importance of a detailed understanding of sectoral dynamics. The Technology and Financial Services industries showed the largest positive link between ESG scores and financial performance metrics like Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. These sectors, which are distinguished by relatively modest environmental liabilities and a strong dependence on governance and reputation, are more adaptable in incorporating ESG concepts.

For example, tech companies benefit from smaller carbon footprints and can swiftly create regulations on data protection, cybersecurity, and ethical AI use, all of which are essential components of the 'Governance' pillar. Similarly, financial institutions are increasingly being held to global ESG standards, and their performance is inextricably linked to public trust, risk reduction, and compliance, making ESG integration a strategic imperative. In contrast, the Energy and Industrial Manufacturing sectors showed weaker or mixed relationships between ESG performance and financial results. These industries are generally resource-intensive, necessitating significant capital investment to move to cleaner technologies and more sustainable practices. The extended gestation period for ESG investments to generate meaningful financial returns, along with changing legal frameworks, makes the financial payback less rapid.

Companies in these sectors who proactively implement ESG norms may enjoy a competitive advantage in the medium to long term due to operational efficiency, decreased regulatory risks, and increased investor trust. The FMCG sector showed a moderate connection of ESG performance and financial indicators. This link is mostly driven by shifting consumer attitudes toward sustainability. Brands that practice environmental stewardship and social responsibility gain customer loyalty, premium pricing opportunities, and increased market share, especially among urban and younger demographics.

Overall, the findings show that ESG isn't a one-size-fits-all strategy. Its efficacy is influenced by sector-specific operational realities, regulatory exposure, and changing stakeholder expectations—including investors, customers, and civil society. While ESG adoption can be a value driver, the paths and timeframes for achieving financial advantages vary greatly by industry.

This emphasizes the significance for corporate leaders to create bespoke ESG roadmaps that address their sector's material concerns and strategic ambitions. For investors, the report emphasizes the need of using sector-specific ESG rating criteria rather than aggregated scores or uniform benchmarks. For policymakers, it emphasizes the necessity of developing industry-specific ESG disclosure and reporting standards that improve transparency, comparability, and accountability without imposing unnecessary burdens. Finally, the study confirms the growing acknowledgment of ESG as a strategic differentiator, particularly for organizations seeking long-term value creation in a highly competitive, regulated, and sustainability-conscious global market.

VI. LIMITATIONS AND FUTURE RESEARCH

Although this study provides useful insights into the sectoral impact of ESG investments on business financial performance in India, it has a few limitations that future research could address.

Limitations

1. Secondary Data Dependency: The research relied solely on secondary data from ESG rating organizations (e.g., CRISIL, MSCI, Sustainalytics) and business filings. Variability in grading systems, as well as potential reporting bias, may have altered ESG rankings' accuracy.
2. Sample Coverage: The sample consisted of 150 big NSE-listed firms. The findings may not apply to small and medium-sized businesses (SMEs), who frequently provide minimal ESG disclosures.
3. Time Frame: The study spanned six years (2018-2023). While adequate for trend analysis, it may fail to reflect the

long-term financial consequences or lag effects of ESG investments, especially in high-capital sectors

4. Aggregate ESG Score Use: The study employed composite ESG scores. Disaggregating performance across individual ESG pillars (Environmental, Social, and Governance) may show more nuanced outcomes.

Future Research Directions

1. Disaggregated ESG Analysis: Future research could examine the impact of E, S, and G factors on business performance in specific sectors.
2. Conducting interviews with business management and ESG officers can provide valuable insights on the implementation and problems of ESG strategies.
3. Longitudinal and Post-Regulatory Analysis: A longer-term study after SEBI's BRSR requirement could analyze if obligatory disclosures improve ESG-performance linkages.
4. Benchmark India's progress in sustainable corporate governance by comparing its ESG performance trends to those of other emerging countries.

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