ESG Performance in India: Insights from CRISIL ESG Disclosures

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Abstract. This paper investigates the evolving trends and implications of CRISIL's ESG (Environmental, Social, and Governance) score disclosures in India. CRISIL expanded its operations into the ESG rating sector with the launch of its ESG scoring business. This new initiative evaluates the ESG performance of over 1,000 companies across 65 different sectors, offering valuable insights into their sustainability and governance practices. In 2024, CRISIL ESG Ratings and Analytics Limited achieved SEBI's Category 1 certification, a milestone that enhances the credibility and transparency of its ESG ratings. The paper explores the trends in ESG scores from 2021 to 2023, noting an initial rise in scores followed by a decline. This fluctuation highlights companies' challenges in maintaining high ESG performance amidst evolving standards and pressures. The study concludes that integrating ESG principles into core business strategies and maintaining strong governance frameworks are essential for achieving long-term sustainability. The consistent governance scores suggest that robust governance practices are integral to overall ESG performance. The significant variability in ESG scores, particularly in 2023, underscores the need for targeted support and guidance to help companies consistently meet high ESG standards.

Keywords: CRISIL ESG scores, ESG performance, Social responsibility.

1 Introduction:

In 2011, the Ministry of Corporate Affairs in India introduced voluntary guidelines outlining businesses' social, environmental, and economic responsibilities. This initiative marked the beginning of ESG (Environmental, Social, and Governance) reporting practices in the country, focusing on aligning investments with ESG principles. Recently, ESG programs have gained significant recognition in India. In May 2021, the Securities Exchange Board of India (SEBI) mandated that the top 1,000 listed companies disclose their sustainability information in their annual sustainability reports. This marked a significant shift from the previous Business Responsibility Report

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(BRR) policy. The new disclosure requirement, which took effect from 2022-2023, aims to standardize sustainability reporting to match the rigor of financial reporting (SEBI 2021). CRISIL, formally called Credit Rating Information Services of India Limited, is an Indian analytical company. It was India's first credit rating agency established in 1988 by ICICI and UTI. The Securities and Exchange Board of India (SEBI) has approved CRISIL ESG. Ratings and Analytics Limited, a subsidiary of CRISIL, to operate as a Category 1 Environmental, Social, and Governance (ESG) ratings provider. This certification allows the subsidiary to offer independent ESG ratings in India, aligning with SEBI's regulatory requirements for transparency and accuracy in ESG assessments. CRISIL launched its ESG scoring business in 2021, evaluating over 1,000 companies across 65 sectors. The new SEBI approval will transfer this business to the CRISIL ESG Ratings subsidiary. This move underscores the growing importance of ESG metrics in the financial markets, aiding issuers and investors in making informed decisions based on sustainability and ethical considerationsCRISIL launched its ESG scoring business in 2021, evaluating over 1,000 companies across 65 sectors. The approval comes after SEBI's amendments to the SEBI (Credit Rating Agencies) Regulations, 1999, which introduced provisions for ESG Rating Providers (ERPs). This framework mandates that all entities, including foreign agencies, offering ESG ratings in India must obtain SEBI certification. The approval aims to enhance the reliability and comparability of ESG ratings, thus supporting the sustainable growth of the Indian economy . Disclosure of rating methodologies, conflicts of interest policies, and any changes in operational frameworks is also mandatory. Such transparency enhances the credibility of the ERP’s operations, building trust among investors and companies being rated. SEBI's structured process for handling complaints and disputes related to ERPs further ensures the fairness and accuracy of ESG ratings (1). An ERP is an entity that assesses and provides ratings on companies' environmental, social, and governance (ESG) performance. These ratings help investors make informed decisions based on a company's adherence to ESG standards. The eligibility criteria for registering as an ERP under SEBI’s regulations include having a robust framework for ESG assessments, adequate resources, experienced personnel, and a transparent rating methodology. This ensures that only compe-

tent entities can provide ESG ratings, thereby promoting trust among investors and other stakeholders (2). Furthermore, ERPs are required to regularly update their methodologies, conduct periodic reviews, and report to SEBI, ensuring continuous compliance with the regulatory framework. These ongoing compliance measures help maintain high standards and adapt to evolving ESG practices and regulatory requirements (3). Non-compliance with SEBI's guidelines can result in penalties, suspension, or cancellation of registration for ERPs. This strict enforcement ensures adherence to high standards, which is crucial for the reliability of ESG ratings. SEBI's framework, aligned with international best practices, helps Indian ERPs gain global recognition and trust, facilitating cross-border investments based on consistent and reliable ESG ratings (2,1). The company must prioritize its social and environmental responsibilities to show the community that it cares about these issues. Doing so can earn the community's trust and support, which is crucial for its long-term success. By being socially and environmentally responsible, the company can build a positive reputation and ensure its sustainability (4). Corporate social responsibility programs can apply the triple bottom line concept to enhance development . Including people, planet, and profit in corporate strategies is crucial. These three aspects help assess a company's success based on economic, environmental, and social criteria.
The triple bottom line concept was introduced as a response to businesses solely prioritizing profits. It suggests that a company's success should not only be judged by its financial gains but also by its impact on environmental sustainability and community welfare . The widespread adoption of ESG (Environmental, Social, and Governance) disclosures can be understood through three main theories. Firstly, legitimacy theory, based on organizational legitimacy (5), suggests that companies disclose ESG information to gain societal approval. Secondly, agency theory explains how organizational governance is shaped by conflicts of interest (6). Thirdly, signaling theory addresses the information gaps between a company and its stakeholders (7). In pursuit of long-term value creation, companies use ESG disclosures to signal their commitment to sustainable practices to their stakeholders. As stakeholders become more aware of a company’s ESG efforts, the company’s credibility and societal relationships improve (8).

2. Theoretical Framework:

2.1 stakeholder theory: A company's sustained success is closely tied to its ability to address the needs and interests of all stakeholders, as suggested by stakeholder theory. Stakeholders are those who are impacted, whether favorably or adversely, by the company's actions. The theory suggests that participating in Environmental, Social, and Governance (ESG) initiatives can improve a company's market outcomes. For example, employees who are satisfied and loyal are often more productive, customers who are happy are likely to stay loyal, and suppliers who are pleased may provide discounts. These favorable outcomes enhance the company's reputation, resulting in improved financial performance and long-term sustainability. ESG engagement positively impacts company performance, primarily because ESG initiatives play a key role in addressing conflicts between managers and stakeholders. Essentially, prioritizing ESG efforts is vital not only for safeguarding a company's financial stability but also for enhancing shareholder value (9,10). The stakeholder-focused theory asserts that ESG practices improve financial performance, supported by the 'conflict-resolution hypothesis,' which posits that ESG efforts help address disputes between managers and non-investor stakeholders (11).

2.2 Agency Theory: The link between ESG principles and agency theory lies in their shared goal of fostering responsible corporate conduct and aligning the interests of executives and shareholders. ESG factors provide a structured approach to assessing a company's performance and sustainability across areas such as environmental impact, social responsibility, and governance. By integrating ESG considerations into corporate decision-making and reporting, businesses can enhance transparency, accountability, and stakeholder relationships. This strategy addresses the principal-agent problem, a core aspect of agency theory, by motivating executives to prioritize the long-term interests of both shareholders and stakeholders, thereby reducing agency costs and promoting a more ethical and sustainable corporate environment. According to Jensen and Meckling's agency theory (1976), ESG activities can lead to conflicts of interest between company managers and shareholders. From this viewpoint, investing in ESG initiatives may not align with shareholders' best interests, as it diverts funds that could otherwise be used to maximize profits. Agency problems related to ESG activities can arise in three main ways. First, managers might exploit company resources for personal benefit by pursuing ESG activities, potentially overspending to enhance their public image as socially responsible individuals at the cost of shareholders (12). Second, ESG initiatives might require companies to sacrifice more lucrative projects, as socially responsible actions incur financial costs, reducing available capital and resources and placing the company at a competitive disadvantage compared to less socially inclined firms (13). Third, there's the issue of managerial opportunism, where managers use ESG activities to divert attention from poor financial performance, often referred to as 'window dressing' (14). This study is essential because India is at a critical juncture where businesses are being pushed to incorporate ESG metrics into their operational frameworks, driven by both international market demands and domestic regulatory changes. To the best of the author's knowledge, this is the first study in the Indian context to analyze the evolving trends in CRISIL's ESG scores from 2021 to 2023, providing an empirical evaluation of how Indian companies are adapting to these changing standards, particularly in the areas of governance and sustainability. Additionally, this study also summarizes the research methodology employed by CRISIL to provide ESG score ratings, offering insights into the criteria and metrics used to assess corporate performance across environmental, social, and governance dimensions.

3. Objective:

This study aims to measure the trend of CRISIL ESG score disclosures in India, particularly from 2021 to 2023.

4. Methodology:

This study employs a longitudinal research design to assess the trend and Implications of ESG Score Disclosure India to observe changes over time and understand the impact of regulatory changes and the company’s ESG Performance. The sample includes the ESG score of Indian Companies from 2021 to 2023. In 2021, CRISIL First

Time Provided ESG scores to 225 Indian Companies followed by 586 companies in 2022 and 471 in 2023.

4.1crisil methodology to assign esg score:

CRISIL ESG Rating is a Comprehensive and multifaceted approach designed to provide an Independent evaluation of a company's ability to manage ESG-related risks and opportunities. The Methodology covers 500 key performance Indicators across different Sectors, Integrating Qualitative and Quantitative data sources from publicly available information like annual reports, Sustainability reports, and regulatory filling. A 0 to 100 scale is used for rating. Where 100 is the highest score and 0 is the lowest score. This is the scale prescribed by SEBI for ESG rating providers (ERPs) in India. the rating is further divided into 5 categories 0-40 (weak), 41-50 (Below Average), 51-60 (Adequate), 61 to 70 (Strong), and 71 to 100 (Leader). Company scores are provided on Individual parameters namely Environment (E), Social (S), and Governance (G). The total ESG score is combined using weight for different parameters namely E(35%), S(25%), and G (40%). These weights show each factor's relative importance in the ESG score. The highest weightage has been given to governance criteria because good governance practices are crucial to implementing good ESG practices. To evaluate the E and S criteria, CRISIL looks at company-specific performance compared to peers and sectoral performance.

Table 1. Table.1 CRISIL evaluation assessment parameters (E, S,G)

Category	Aspect	Details
Environment	**CO2 Emissions**	- Intensity of CO2 emissions (Scope 1 and 2) - Intensity of Scope 3 emissions - Trend in emissions
	Climate Change Policy	- Physical and transition risks
	GHG Emissions	- Intensity of air pollutants (SOx, NOx, SPM, ODS) emissions

	Waste Management	- Hazardous and non-hazardous waste management - Generation and disposal methods - Recycling, reusing, recovery methods

	GHG Emissions	**- Intensity of air pollutants (SOx, NOx, SPM, ODS) emissions**
	Waste Management	- Hazardous and non-hazardous waste management - Generation and disposal methods - Recycling, reusing, recovery methods
	Resource Use, Green Products, and Biodiversity	- Raw material use efficiency - Sustainable/green products/services - Biodiversity management near IUCN protected species
	Energy Use	- Share of renewables in energy use - Energy conservation capital investment - Trends in reduction in energy consumption
	Water Management	- Water withdrawal by type (fresh, ground, saline) - Water reuse and conservation - Wastewater treatment (STP/ETP, ZLD)
Social	**Employee and Worker Management**	- Share of permanent workforce - Gender diversity - Talent retention, attrition rates - Lost time injury frequency rate (LTIFR)
	Working Conditions and Safety	- Training on skill, safety - Wage equality - Unionisation - Sexual harassment complaints, redressal rate
	Communities	- Taxes paid (direct, indirect) - Regulatory CSR spend - Employment generated Mechanism for community grievance redressal
	Stakeholder Management and Product Quality	- Vendor management - Social considerations in the supply chain - Net promoter score/feedback - Product safety and quality
Governance	**Board Composition**	- Integrity checks on Board members - Total number of members and composition - Gender diversity (women members)
	Board Functioning	- Meeting frequency and attendance record - Interaction between independent directors - Split of CEO and Chairman positions
	Director Independence	-Independence from the company - Experience and tenure - Third-party evaluation of Board

4. Sector score: CRISIL’s research methodology for evaluating Environmental, Social, and Governance (ESG) factors is built upon a comprehensive framework that encompasses key sector-specific parameters. As per table .1 For the environmental pillar, the methodology considers parameters such as the intensity of CO2 emissions (Scope 1, 2, and 3) and trends in emissions reduction. It also evaluates corporate policies on climate change, including physical and transition risks, greenhouse gas (GHG) emissions, and air pollutants such as SOx and NOx. Additionally, waste management practices, including hazardous and non-hazardous waste, recycling methods, and resource use efficiency, are critical aspects. Companies are also assessed based on their use of renewable energy, water conservation efforts, and sustainable product portfolios, with attention to biodiversity management in operations near sensitive areas.

Table 2. sector score environment and social factors sub-pillar weightage

Sector grouping	Environment(35%)					Social (25%)		
	GHG Emissions	Energy use	Waste management	Water management	Resource use and Impact on biodiversity	Employee and worker management	Stakeholder management and product quality	Impact on communities
Services	3%-12%	3%-13%	3%-15%	2%-7%	1%-23%	7.5%-15%	5%-12%	2%-10%
Manufacturing	5%-12%	3%-9%	3%-12%	3%-10%	3%-15%	8%-13.5%	5%-12%	4%-10%
Infrastructure	8%-10%	4%-6%	5%-7%	5%-7%	8%-10%	9%-11%	7%-10%	5%-8%

The social pillar focuses on employee and worker management, with parameters such as gender diversity, talent retention, training programs, and safety metrics like the Lost Time Injury Frequency Rate (LTIFR). CRISIL also examines workplace policies on inclusion and sexual harassment redressal. Community impact, including taxes paid, regulatory Corporate Social Responsibility (CSR) spending, and grievance redressal mechanisms, forms a core part of this pillar. The evaluation extends to stakeholder management, analyzing vendor practices, supply chain sustainability, product quality, and customer feedback. In the governance pillar, CRISIL’s evaluation emphasizes board composition and functioning, including integrity checks, diversity, and independence of board members. The separation of roles for the Chairman and CEO, board meeting frequency, and director independence are analyzed to assess the effectiveness of corporate governance. The evaluation also considers third-party assessments of board performance and adherence to governance best practices. CRISIL's multi-layered ESG framework draws from global standards such as the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI), ensuring that parameters are material and relevant across sectors.

2021	Mean	Median	Minimum	Max	Std. Dev.	C.V.	5% perc.	95% perc.	ran
Environment Score	43.939	42.00	20.00	83.00	12.397	0.28215	26.000	64.000	
Social Score	49.440	49.00	22.00	70.00	8.7274	0.17653	35.000	64.000	
Governance Score	65.556	67.00	30.00	82.00	8.2037	0.12514	50.000	76.000	
ESG Score	53.964	54.00	29.00	76.00	7.4801	0.13861	42.000	66.000	
2022	Mean	Median	Min	Max	Std. Dev.	C.V.	5% perc.	95% perc.	ran
Environment Score	47.682	47.000	22.000	86.000	12.397	0.28215	26.000	64.000	
Social Score	53.758	54.000	29.000	71.000	8.7274	0.17653	35.000	64.000	
Governance Score	67.197	68.000	40.000	83.000	8.2037	0.12514	50.000	76.000	
ESG Score	57.081	56.000	40.000	79.000	7.4801	0.13861	42.000	66.000	
2023	Mean	Median	Min	Max	Std. Dev.	C.V.	5% perc.	95% perc.	ran
Environment Score	34.589	31.000	14.000	67.000	10.583	0.30597	22.000	56.000	
Social Score	43.540	42.000	24.000	71.000	9.1398	2.209	31.000	61.700	
Governance Score	64.583	66.000	26.000	81.000	7.8403	0.12140	47.650	74.000	
ESG Score	49.028	48.000	27.00	96.000	7.1116	0.14505	40.000	61.000	

Table.3 Descriptive Statistics for 2021, 2022, and 2023

*Author's Calculations

Results and discussion:

As per table.3 the analysis of environmental scores over the three-year period reveals an initial improvement followed by a notable decline. The mean score increased from 43.94 in 2021 to 47.68 in 2022, suggesting an enhanced focus on environmental disclosures or performance among Indian companies during this period. However, this positive trend reversed in 2023, with the mean score falling significantly to 34.59. The median score showed a similar trajectory, decreasing from 42 in 2021 to 31 in 2023, indicating a broader decline in environmental reporting or outcomes. The coefficient of variation (C.V.) increased from 0.282 in 2021 to 0.306 in 2023, highlighting growing inconsistency in environmental performance across companies. This may reflect diverging practices in addressing environmental challenges or reporting standards.

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The trend in social scores follows a similar pattern to that of environmental scores. The mean social score rose from 49.44 in 2021 to 53.76 in 2022, indicating improvements in social factors such as labor practices, diversity, and community engagement during this period. However, by 2023, the mean had decreased to 43.54, suggesting a decline in social performance or reporting standards. The increasing variability, as indicated by the C.V., reflects growing disparities in social responsibility efforts across companies. This variability may be due to differences in how companies address social issues or varying levels of transparency in their reporting. The trend in social scores follows a similar pattern to that of environmental scores. The mean social score rose from 49.44 in 2021 to 53.76 in 2022, indicating improvements in social factors such as labor practices, diversity, and community engagement during this period. However, by 2023, the mean had decreased to 43.54, suggesting a decline in social performance or reporting standards. The increasing variability, as indicated by the C.V., reflects growing disparities in social responsibility efforts across companies. This variability may be due to differences in how companies address social issues or varying levels of transparency in their reporting. Unlike the environmental and social dimensions, governance scores remained relatively stable over the three years. The mean governance score increased marginally from 65.56 in 2021 to 67.20 in 2022, before declining slightly to 64.58 in 2023. The median score followed a similar pattern, indicating a consistent approach to governance practices among companies. The consistently low C.V. values across all three years (0.125 in 2021, 0.125 in 2022, and 0.121 in 2023) suggest that governance practices have exhibited less variability compared to environmental and social dimensions. This stability could be attributed to more established regulatory frameworks and higher standards for governance disclosures. The overall ESG score reflects the combined trends in environmental, social, and governance dimensions. The mean ESG score increased from 53.96 in 2021 to 57.08 in 2022, signaling improvements in overall ESG performance or disclosure during this period. However, the mean score fell to 49.03 in 2023, driven primarily by declines in environmental and social scores. Despite the overall decrease, the maximum ESG score increased from 79 in 2022 to 96 in 2023, suggesting that while average performance declined, some companies achieved exceptional ESG results, leading to greater disparities between leading and lagging firms.

Conclusion:

The initial improvements in ESG scores from 2021 to 2022 demonstrate the potential for corporate sectors to enhance their ESG performance. However, the subsequent decline in 2023 indicates that sustaining these improvements requires ongoing commitment, resources, and possibly more robust regulatory frameworks. Companies must focus on integrating ESG principles into their core business strategies to achieve long-term sustainability. The high and stable governance scores suggest that strong governance frameworks can significantly contribute to overall ESG performance. Developing and maintaining robust governance structures can help mitigate the impact of external pressures and ensure consistent performance across environmental and social dimensions. The significant variability in ESG scores, particularly in 2023, highlights the need for targeted support for companies that are struggling to meet ESG standards. Regulatory bodies, industry associations, and other stakeholders can play a crucial role in providing guidance, resources, and best practices to help these companies improve their ESG performance. Future research could explore the underlying reasons for the decline in ESG scores in 2023.

Limitations:

1. The study relies on ESG scores from CRISIL, provided for only three years (2021-2023)data. The limited timeframe may not fully capture long-term trends and developments in ESG performance.

2. Variations in data availability and consistency across different companies and sectors could impact the accuracy and comparability of the results.

3. The impact of SEBI's regulatory changes on ESG performance is inferred but not empirically tested within the study. A more detailed analysis of the regulatory effects, including stakeholder perceptions and compliance costs, would provide a more comprehensive understanding.

4. The study is focused on Indian companies, which limits the generalizability of the findings to other regions or global contexts. ESG practices and regulatory frameworks can differ significantly across countrie

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