



ESG Investing in India



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In today's world, it is becoming increasingly important for investors to consider more than just financial returns when it comes to their investments. Environment, Social and Governance (ESG) investing has gained significant traction in India in recent years, with investors becoming more conscious of the impact that their investments can have on society and the environment. ESG investing is a form of sustainable investing which focuses on companies that not only aim to generate financial returns, but also aim to create a positive environmental and social impact. This article explores the growing significance of ESG investing in India, and how investors can benefit from it.

What is ESG investing?

Environment, Social, and Governance (ESG) investing is a form of sustainable investing which focuses on companies that not only aim to generate financial returns, but also aim to create a positive environmental and social impact. ESG investing is also known as Socially Responsible Investing (SRI) or values-based investing. ESG investing is sometimes also referred to as ethical investing; however, ethical investing is broader, as it is not solely focused on environmental and social impact. When most people think of socially responsible investing, they think of someone who avoids investing in certain industries, such as tobacco, weapons, or alcohol. However, there is a much wider definition of what constitutes ESG investing, and it is more than just avoiding certain industries. ESG investing is a way of investing that seeks to profit from companies with positive social and environmental impacts as well as a focus on financial returns. It is about investing in companies that are not only



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profit-driven, but those who also make a positive difference in our world.

The Importance of ESG Investing in India

India's economy is growing strongly, and many investors are looking for new investment opportunities in the country. The proportion of people in India who are investing in stocks is also on the rise. All of this means that there are plenty of new opportunities for investors to explore in this market. However, while India is an attractive investment location, it is also a challenging one, with many important issues to consider when investing in this country. Investors who are new to the Indian market may find it difficult to navigate, and may also not know which issues to prioritize when making their investment decisions. In order to be successful in this market, it is important to consider all aspects of your investment decisions, including the environmental and social impact of your investments. This will help ensure that your investments are socially responsible, and also make a positive impact in the Indian economy. If you are an existing investor in India, or looking to invest there for the first time, it is important to consider how your investments impact society and the environment.

Benefits of ESG Investing

Investors who make ESG investment decisions generally aim to generate financial returns, but also want to positively impact the environment and society in which their investments are made. This can be achieved by investing in companies which produce goods and services that are useful to society, but which do so in a way that minimizes their environmental impact, and which respects human rights. The following are some of the benefits that can be expected when conducting ESG investing: -

- **Investment performance** - Research has shown that investing in companies that excel in ESG areas, such as environmental and social impact, can lead to better investment performance than in those that do not.
- **Risk management** - Conducting ESG investing can help investors to manage the risk of their investments, as they will be less exposed to industries that are risky.
- **Access to new investment opportunities** - Companies that are involved in ESG activities can be good investments, and investors can benefit from diversity when they have a balanced portfolio with a range of different types of investment.

Challenges of ESG investing in India

As we have seen, ESG investing can result in better investment performance, and can also help investors manage their risk and

access a broader range of investment opportunities. However, ESG investing in India comes with a number of challenges, which may be difficult for some investors to overcome. These include:

- **Lack of awareness:** Many investors in India are unaware of the potential benefits of ESG investing, and are only focused on generating financial returns.
- **Lack of regulation:** There is a lack of regulation and oversight in India, which makes it challenging for investors to monitor and enforce their ESG investment decisions.
- **Lack of data:** Information on the environmental and social impact of companies in India is limited, making it difficult for investors to assess the impact of their investments.
- **Lack of investment options:** There are limited investment options available to Indian investors who wish to conduct ESG investing, especially if they are looking to invest in stocks.

ESG Investing Regulations in India

There are no specific ESG investing regulations in India, as this type of investing is not very regulated at the national level. However, certain sectors and industries have their own regulations that investors may need to adhere to. The Indian government, particularly, has regulations in place for industries such as defence, healthcare, and telecommunications, which means that investors who wish to focus their investments on these areas will need to adhere to these regulations. It is important to be aware of the regulations in place in India, especially if you are investing in sensitive areas such as defence or healthcare, as you may need to obtain a license before you can invest.

ESG Investing Opportunities in India

The Indian market currently presents a number of ESG investing opportunities. As Indian companies become more aware of the need to adopt sustainable business practices, they are increasingly looking to make their operations more environmentally friendly and socially responsible. This can create ESG investing opportunities for socially conscious investors who may be looking to invest in sectors such as clean energy, water, waste management, health, education, food and agriculture. There are also a number of specific sectors that currently present ESG investing opportunities in India. These include the healthcare sector, which has been significantly impacted by the Indian government's policy of "Health for All", which aims to make healthcare accessible to all Indians by the year 2020. The healthcare sector has seen rapid growth in recent years and is projected to grow further, which has also led to a rise in ESG Investing opportunities.

ESG Investing Strategies

There are various ESG investing strategies that investors can employ to increase their chances of success when pursuing an ESG investment strategy. Sustainable investing is a long-term strategy that requires investors to be patient and disciplined enough to wait for the outcome they are hoping for. When investing in emerging markets, patience is especially important as it can take time for sustainable companies to become large enough to make a significant impact. Investors can also consider investing in “double bottom line” (DBL) companies. These are companies that have a positive social and environmental impact as well as a positive financial return. This can be a good way to ensure that you are investing in companies that have a positive impact on the world while still generating a financial return. However, it is important to note that this approach is not always successful. For example, investors who invested in DBL companies after the 2004 tsunami in Southeast Asia saw the impact on their investment disappear as the business was adversely affected by the disaster.

ESG Investing Solutions for Investors

As an ESG investor, you can take various steps to ensure that your investments are aligned with your values. Investors can learn more about the social impact of their investments by conducting social impact assessments. This can be useful for any investors who want to understand the social impact of their investments. It can also be helpful for investors who want to assess the return on their investments. When conducting this assessment, investors can take into account factors such as their company's social impact, its financial performance, its sustainability, and its reputation. It is also important for investors to be aware of the potential risks of pursuing an ESG investment strategy. For example, the risks associated with investing in emerging markets are the same regardless of whether the investments are ESG or non-ESG. Therefore, it is

important to keep these risks in mind when pursuing an ESG investment strategy.

ESG Investing Resources

The Indian Society of Social Responsible Investment (ISSRIS) is an Indian organisation that aims to promote sustainable investing in the country. ISSRIS offers a range of services to investors, including education and training, online tools, and compliance services. It also provides information on various sectors that are ESG investing opportunities in India, including the water and sanitation sector and the healthcare sector. Another useful resource for ESG investors is the Ethical Investment Network (EIN). This network aims to bring together investors and asset managers, impact investors, ethical finance organisations, and other stakeholders who have a vested interest in the transition towards a more sustainable financial system. ■

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