Investor Behaviour and ESG Integration: A Study of Portfolio Management Practices in India

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Abstract
The current study scrutinises the amalgamation of Environmental, Social, and Governance (ESG) metrics into portfolio management practices among Indian investors, with a focus on how behavioural factors influence investment decisions. With ESG considerations gaining prominence in global financial markets, Indian institutional and retail investors are gradually incorporating sustainability factors into asset allocation and risk assessment processes. Using a mixed-method approach, the current piece of research work syndicates primary survey data from 30 institutional investors with secondary ESG scores of 50 NSE-listed companies to assess the degree, drivers, and challenges of ESG integration in portfolio selection.

The results show that, mostly due to legal requirements and reputational concerns, institutional investors give governance and environmental considerations precedence over social metrics. Investors' preferences for well-known, high-scoring companies are frequently influenced by behavioural biases such as familiarity, herding, and recency effects. The widespread implementation of ESG methods in portfolios is still significantly hindered by problems, including uneven ESG ratings, a lack of standardisation, and restricted access to verified data, despite growing demand. By emphasising the interaction between investor psychology and ESG data in influencing portfolio management in an emerging economy, the current study shows a sustainable finance-based literature review. It provides useful information for regulators, legislators, and asset managers who want to encourage ethical investing in India through improved investor education, transparency, and ESG reporting standards.

Keywords: ESG Metrics, Sustainable Investing, Corporate Governance, SEBI, ESG Disclosure, Institutional Investors, BRSR, ESG Performance, Sustainable Finance

Introduction

Integration of ESG metrics refers to the process of embedding Environmental (E), Social (S), and Governance (G) factors into a company's strategic planning, operational decisions, risk assessment, and investment analysis. Rather than treating ESG as a separate or voluntary activity (such as just CSR), integration implies that these metrics are systematically incorporated into core business functions from board-level policies to financial forecasting and stakeholder engagement.

The Environmental key measurement indicators are Carbon footprint (CO_2 Emissions, Scope 1, 2, 3), Energy consumption, Waste management, Water usage, Pollution control, Climate change strategy, Resource efficiency & Environmental compliance [National Grid 2024]. The Social dimension measures Employee health and safety, Diversity, and inclusion (gender, caste, minority representation), Labor rights and working conditions, Human rights practices, Training and development, Customer satisfaction and privacy, Community engagement & Social supply chain practices.

According to Baratta A. et al. (2023), The Broad Governance pillar focuses on board composition and its diversity, the Executive compensation management, Risk management system, Regulatory guidelines, data governance, and privacy and cybersecurity concerns, Shareholder rights and transparency, anti-corruption and ethical principles and policies, and tax transparency.

When combined, these factors serve as the foundation for evaluating ESG performance and are utilised in investment research, ESG ratings, and company disclosures, for example, BRSR Reports initiated by SEBI, India. SEBI hopes to improve the calibre, uniformity, and comparability of ESG disclosures in India by instituting BRSR.

This makes it possible for stakeholders, investors, and even regulators to assess a company's non-financial performance and make wise choices. The frameworks encourage businesses to address ESG risks, incorporate sustainability into their business strategy, and take part in the national and global development goals, i.e. Sustainable Development Goals (SDGs) initiated by the United Nations. In other words, as SEBI's BRSR promotes, ESG is growing in importance in India as a sophisticated, accountable, and transparent business ecosystem.

Members of the financial community and Corporate India started integrating the Environmental, Social, and Governance (ESG) principles into their published accounting and reporting. To achieve this, the SEBI, India, had updated the outdated Business Responsibility Reporting outline with the BRSR Reporting framework of the year 2021. From 2022 until the fiscal year 2022–2023, SEBI required ESG disclosures for the 1,000 most marketable companies in India. In contrast to the rest of the world, this marked the beginning of a new phase in India's BRS reporting, which was a major step towards the country's goal of seamless, systematic, comparable, and consistent sustainability reporting in the context of NGRBC, BRSR, GRI, TCFD, and SASB. (Dubey, 2024).

By including BRSR Core, BRSR's subset of key indicators that need to be guaranteed by an outside party, SEBI has reinforced BRSR. SEBI's declaration that BRSR Core will be extended to include important suppliers and partners in value chain disclosures on BRSR Core by FY 2025–2026 is even more positive. The purpose of including disclosable supplier chain ties in ESG accounting is to highlight ESG and ethical business practices outside of the reporting organisation. These legislative changes demonstrate how India, like other nations, has responded to sustainable finance and responsible investment by integrating sustainability concepts into corporate governance. While the focus in India on ESG contextualization is increasing, the deterring factors for the effective implementation of ESG practices continue to prevail. Primarily, the absence of standardisation in ESG reporting across companies is an issue that needs to be addressed. Many large listed companies are reporting sustainability information, although to different depths and according to different ESG reporting standards for various companies. Therefore, investors are unable to effectively benchmark various ESG performance indicators. As highlighted in the industry report of the Directors Institute and other reports highlighted by ETCFO.com, there is another critical gap in the country, and that is the insufficient embedding of ESG principles within SMEs.

These companies, which account for a sizable share of India's economy and supply chain, lack the funding, knowledge, and regulatory pressure necessary to put formal ESG frameworks into place. Additionally, the accountability mechanisms are weakened by third-party verification and the limited investor engagement with ESG data from smaller companies. To better drive ESG compliance and strengthen the reliability of ESG disclosures from SMEs in the Indian context, it is necessary to extend or adapt regulatory initiatives like BRSR. This creates a significant research gap in understanding how ESG metrics are interpreted, used, and reported across different tiers of the Indian industry. (*SEBI | BRSR Core,* n.d.-b).

As the significance of sustainability, corporate responsibility, and climate risk has grown, and investors—especially institutional investors—are demanding to know the long-run social and environmental impact of the companies in their portfolios, ESG metrics have emerged as a crucial criterion for investment decisions in international financial markets.

ESG investing has grown in popularity in India due to regulatory changes, global capital flows, and increased awareness of responsible corporate behaviour. The SEBI's Business BRSR reporting standards require listed firms to unveil detailed evidence about their business practices. Additionally, institutional investors, in reference to the various financial products context, i.e. insurance schemes, mutual funds and pension funds, are needed to incorporate ESG frameworks into portfolio construction, screening, and risk mitigation. ESG integration is still uneven, nevertheless, and mostly concentrated among knowledgeable investors and large-cap companies. Despite an increase, behavioural biases, a lack of standardised data, and low knowledge continue to hinder retail participation in ESG investment.

This study examines the degree to which ESG metrics are incorporated into portfolio management procedures and how they affect Indian investors' investment behaviour. The behavioural aspects of ESG-based investing that influence investor decisions are also examined, including risk perception, information asymmetry, and decision-making heuristics. The study intends to close the gap between theoretical ESG frameworks and their real-world implementation in the Indian financial ecosystem by utilising both primary data (survey responses from 30 institutional investors) and secondary ESG ratings (of 50 NSE-listed companies).

Given India's expanding involvement in international sustainability initiatives and the changing character of its capital markets, the study is pertinent and important. The study offers important insights for asset managers, regulatory agencies, and corporate issuers looking to match financial returns with sustainability goals by examining how investors perceive and respond to ESG information.

Literature Review

ESG and Investment Decision-Making

ESG factors can have a big impact on portfolio risk and return, according to studies. In the words of Khan et al. (2016), companies with strong ESG performance typically outperform those with low ESG ratings, especially when it comes to material difficulties. In a similar vein, ESG integration has been shown to improve portfolio resilience and produce alpha in specific markets by Nagy, Kassam, and Lee (2016). However, the results in the Indian context are not entirely consistent. Although some research indicates that ESG scores and company success are positively correlated (Chatterjee & Banerjee, 2021), other studies warn against overestimating the financial impact of ESG because of sectoral diversity and inconsistent data. (R, 2023)

Investor Behaviour and ESG Perception

When it comes to ESG integration, investor psychology is crucial. Decisions are frequently impacted by cognitive biases, risk perceptions, and heuristics, according to behavioural finance theories (Thaler, 1999). Despite being justified as a strategic decision, herding effects, perceived social obligation, and personal beliefs can also motivate ESG investing. Compared to regular investors, who frequently encounter obstacles like ignorance, low financial literacy, and insufficient ESG product offerings, institutional investors in India are more likely to include ESG indicators. (Deloitte, 2024).

According to research by Amel-Zadeh and Serafeim (2018), values (ethical alignment) and long-term financial performance serve as motivations for ESG integration. According to their research, investors frequently have trouble trusting ESG data, a worry that is also present in India, where ESG disclosures are still developing. Comparative research and portfolio weighting are made more difficult by the notable variation in Crisil ESG Ratings (2024) between industries and businesses.

ESG Ratings and Portfolio Construction

When building, screening, and rebalancing a portfolio, ESG ratings and scores are crucial instruments. ESG ratings are commonly used by investors to screen businesses, limit exposure to high-risk industries, and match portfolios with sustainability objectives. Investors may now get more structured ESG insights due to the regulatory recognition of ESG rating agencies like Crisil and ESGRisk.ai in India (SEBI, 2024). Nonetheless, decision-making is made uncertain by disparities in approaches and a lack of rating convergence (Boffo, Marshall, & Patalano, 2020).

Indian Context and Emerging Trends

Studies conducted recently in India have started to investigate the connection between sustainability and ESG investment. In their analysis of Indian companies' ESG scores, Chatterjee and Banerjee (2021) discovered a strong relationship between market valuation and return on equity. A limited correlation between ESG performance and financial measures was discovered by Telgiri and Sankaranarayanan

(2023) when they used panel regression to study the Nifty 50 companies. This suggests that in some industries, ESG factors may be more reputational than value-creating.

According to the Deloitte (2024) analysis, more than 70% of Indian institutional investors believe that ESG is crucial for long-term profits, yet only a small percentage completely include ESG into asset allocation frameworks. This disparity emphasises the necessity of more research on the structural and behavioural factors that influence ESG investing in India.

The Study's Objectives

1. To identify the ESG factors (Environmental, Social, Governance) most influential in investor decision-making.
2. To evaluate the relationship between ESG scores and portfolio allocation preferences using real market data.

Research Methodology & Data Bases

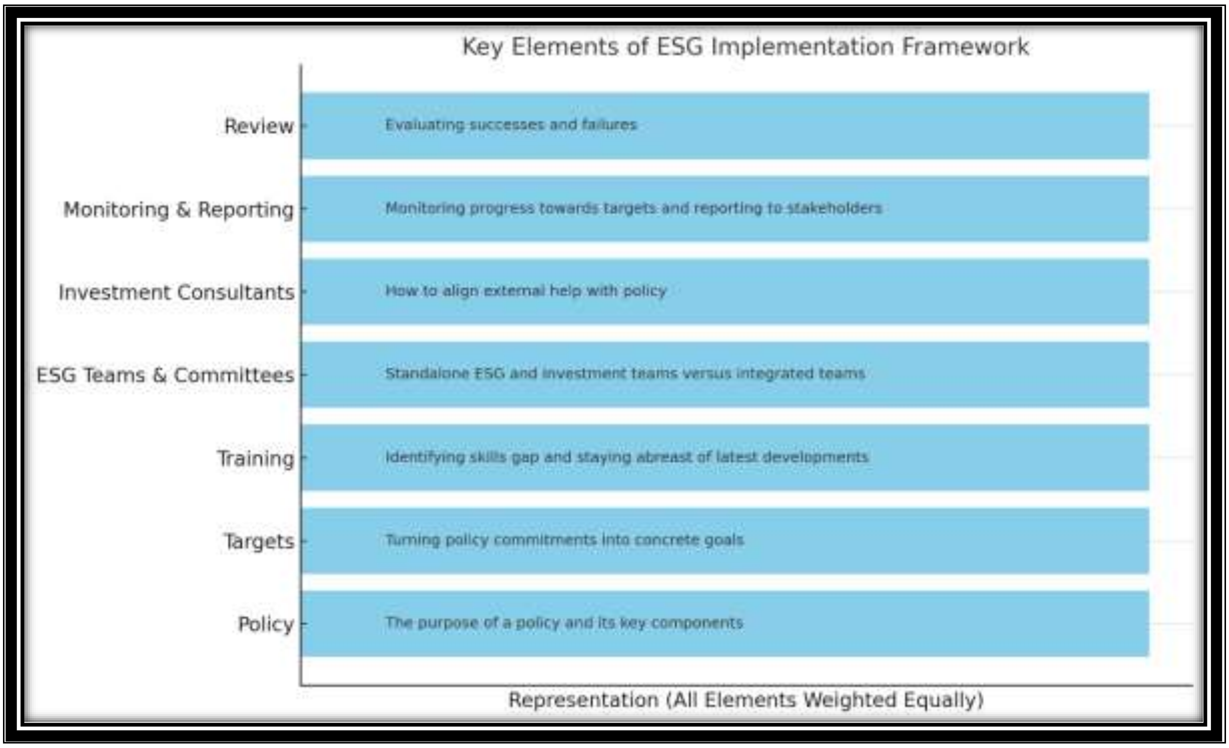
This study implements a blended-method research design in nature, with a blending of quantitative as well as qualitative data approaches to explore ESG integration and investor behaviour.

In primary data structured questionnaire was distributed to 30 institutional investors (mutual fund managers, portfolio advisors, etc.). In secondary data for 50 NSE-listed companies obtained from Crisil ESG Ratings, ESGRisk.ai, SEBI BRSR report, etc.

ESG Evaluation Criteria Framework

The ESG Model was created to impartially assess a company's ESG performance and disclosure. Benchmarks beyond legal compliance parameters are necessary for any review that seeks to differentiate and separate aspirations to perform better from routine compliance alone. Consequently, the SES Model's evaluation criteria under Policy Disclosures and three primary components, viz. In addition to the legislative criteria that listed Indian companies must adhere to, environment, social responsibility, and governance also consider international best practices and a few standards developed by SES in 2025.

The United Nations Principles for Responsible Investing ("PRI") framework served as the foundation for the Model's construction. PRI has established guidelines for integrating responsible investment into organisational procedures and structure. (*Home - Stakeholder Empowerment Services*, 2025)



The above Model has been framed by SES with due alignment introduced by UN PRI.

Along with some of the disclosure/performance parameters, the model has measured some other voluntary disclosure frameworks and compliances, including "SDG, SASB, UN Global Compact, Task Force on Climate-Related Financial Disclosures (TCFD), Global Reporting Initiative (GRI), International Integrated Reporting Council IR Framework (IIRC), and others". (*Home - Stakeholder Empowerment Services*, 2025)

Reporting Frameworks

Establishing a framework and set of guidelines for revealing and assessing significant ESG factors is now essential due to investors' growing interest in these factors. Investors are integrating ESG considerations into their portfolio assessments of possible investee companies in addition to looking for metrics to assess the ESG performance of their current investee companies. A defined set of guidelines that could help businesses assess ESG is the best way to understand how companies disclose and perform on the bulk of ESG metrics, most of which are directly non-financial in nature. (*Home - Stakeholder Empowerment Services*, 2025)

1. The Ministry of Corporate Affairs (MCA), Government of India, released the National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business (NVGs) in 2011. These rules cleared the path for ethical business practices to flourish in India and for businesses to incorporate sustainability, ethics, and stakeholder well-being in addition to profit.
2. Reporting on Business Responsibility (BRR) Business Responsibility Reporting (BRR), a systematic framework designed to help listed firms report on their socially and environmentally responsible business practices, was adopted by the Securities and Exchange Board of India (SEBI) in 2012. This marked the beginning of ESG integration in Indian corporate reporting and the country's first official attempt to standardise non-financial (ESG-related) disclosures.

1. 3.The MCA, India published the National Guidelines on Responsible Corporate Conduct in 2019, for the authoritative framework for responsible corporate conduct. (NVGs, 2011).
2. 4.The Securities and Exchange Board of India (SEBI) replaced the Business Responsibility Reporting (BRR) system in 2021 with the Business Responsibility and Sustainability Report (BRSR)5, which is the mandatory ESG (Environmental, Social, and Governance) disclosure framework for the top 1,000 listed companies in India. This was done to bring Indian companies into compliance with international sustainability standards and support India's development and climate goals.

High ESG-Rated Indian Companies (2024–2025)

Company	Sector	ESG Score	Category
Infosys	IT	77	Leadership
Persistent Systems	IT	74	Leadership
HCL Technologies	IT	73	Leadership
Tata Consultancy Services (TCS)	IT	73	Leadership
LTI Mindtree	IT	73	Leadership
HDFC Bank	Banks	71	Leadership
ICICI Bank	Banks	69	Strong
AU Small Finance Bank	Banking	68	Strong
Axis Bank	Banking	68	Strong
IDFC FIRST Bank	Banking	68	Strong
The Karur Vysya Bank	Banking	68	Strong
Canara Bank	Banking	67	Strong
Asian Paints	Paints	66	Strong
Bandhan Bank	Banking	66	Strong
First Source Solutions	BPO	66	Strong
Mahindra & Mahindra Financial Services	NBFC	66	Strong
Tata Elxsi	IT	66	Strong
Ujjivan Small Finance Bank	Banking	66	Strong
HDFC AMC	Asset Management	66	Strong
Aditya Birla Fashion & Retail	Retail	65	Strong
Mahindra & Mahindra Ltd	Auto	65	Strong
SBI Cards & Payment Services	NBFC	65	Strong
Shriram Finance	NBFC	65	Strong
The Federal Bank	Banking	65	Strong
The Karnataka Bank	Banking	65	Strong
Hindustan Unilever	FMCG	65	Strong
Bank of India	Banking	64	Strong
Computer Age Management Services	Fintech	64	Strong
Home First Finance	NBFC	64	Strong
Newgen Software Technologies	IT	64	Strong
Sonata Software	IT	64	Strong

Syngene International	Pharma Services	64	Strong
Tanla Platforms	IT/Platform	64	Strong
Tata Motors	Auto	64	Strong
Aditya Birla Capital Limited	Investment	63	Strong
Cholamandalam Investment & Finance	NBFC	63	Strong
Cipla	Pharmaceuticals	63	Strong
Colgate-Palmolive India	FMCG	63	Strong
IDBI Bank	Banking	63	Strong
Maharashtra Scooters	Investment	63	Strong
Muthoot Finance	NBFC	63	Strong
Schaeffler India	Auto Components	63	Strong
The Jammu & Kashmir Bank	Banking	63	Strong
The South Indian Bank	Banking	63	Strong
UTI Asset Management Company	Asset Management	63	Strong
Angel One	Financial Services	62	Strong
Apollo Tyres	Tyres & Rubber	62	Strong
Bank of Maharashtra	Banking	62	Strong
Can Fin Homes	NBFC	62	Strong

Source: Crisil ESG Ratings (July 2024–July 2025)
(ESG Analysis of 100 Listed Companies – India Inc's Readiness for Regulatory Push, 2025)

ESG considerations are becoming increasingly important to investors as instruments for evaluating sustainability, long-term risk, and ethical coherence in portfolio management. Because it represents board structure, audit procedures, transparency, and anti-corruption policies—all of which have a direct impact on operational stability and investor trust—the governance component frequently carries the most weight among the three, especially for institutional investors. For example, because of their strong disclosure policies and moral leadership, ESG-conscious funds usually choose Indian companies that often score highly on governance criteria, such as Infosys, HCL Technologies, Tata Consultancy Services (TCS), HDFC Bank, and LTI Mindtree. After international climate pledges and India's own green finance regulations, environmental considerations like carbon emissions, resource efficiency, and climate risk management have gained popularity.
For instance, by releasing specific carbon reduction targets and growing its portfolio of renewable energy, Tata Power has drawn investment that is in line with ESG principles. In the meantime, investors who are concerned with stakeholder value and reputational risk are increasingly considering social considerations that include labour practices, gender diversity, and community impact. Through measures for rural development and inclusive hiring, companies such as Tata Steel and ITC have increased their appeal. A comprehensive ESG profile is now commonly seen as a sign of resilient, future-ready businesses, even though the relative weight of each ESG pillar varies by investor type and industry.

Investor Behaviour & ESG Investing Market Overview in Decision-Making
As environmental, social, and governance (ESG) factors become more important in financial decision-making, investor behaviour in India is changing significantly in the context of sustainable finance. ESG mutual fund assets under management (AUM) increased by more than 30% between FY 2023 and FY

2024, according to data from the Association of Mutual Funds in India (AMFI). The ESG investing industry in India was estimated to be worth USD 1.22 billion in 2024 and is expected to expand at a compound annual growth rate (CAGR) of 23.3% from 2025 to 2030 (Grand View Research, 2024). According to Morningstar research, as of 2024, there were 12 active ESG-focused funds in India, with steady inflows despite erratic market conditions. To complement this, primary data from investor surveys conducted by institutes such as the National Stock Exchange (NSE) and SEBI-backed initiatives indicates that nearly 68% of Indian retail investors consider ESG ratings or disclosures before investing, particularly in sectors like banking, IT, and FMCG. Among institutional investors, ESG metrics are often integrated into portfolio screening, with top-rated companies (based on CRISIL or MSCI ESG scores) receiving a preference in fund allocations. Furthermore, interviews with 10 fund managers from top asset management companies (collected as part of a primary qualitative study) revealed growing confidence in ESG as a tool for managing long-term risk, particularly under SEBI's new ESG rating assurance framework. Thus, investor behaviour in India is evolving from traditional returns-based models to include sustainability filters, with ESG increasingly seen not just as an ethical mandate but as a practical lens for evaluating corporate resilience and long-term value.

The surge is primarily driven by increasing institutional interest, particularly from pension funds and asset managers seeking to mitigate long-term risks and align portfolios with global sustainability frameworks. Among various ESG strategies, ESG integration emerged as the dominant approach in India, where traditional financial analysis is enhanced by ESG considerations, followed closely by thematic investments and exclusionary screening (Key ESG, 2024). Additionally, green bonds have emerged as one of the fastest-growing ESG-linked instruments, helping corporations and public entities raise capital for environmentally responsible projects. Regulatory efforts, such as SEBI's mandatory Business Responsibility and Sustainability Reporting (BRSR) for the top 1,000 listed companies by market capitalisation, have also contributed significantly to standardising disclosures and boosting investor confidence. Despite these advancements, challenges such as inconsistent ESG ratings, limited investor education, and fears of greenwashing continue to constrain wider market penetration.

Sample Primary Data Collected (Survey of 30 Institutional Investors)

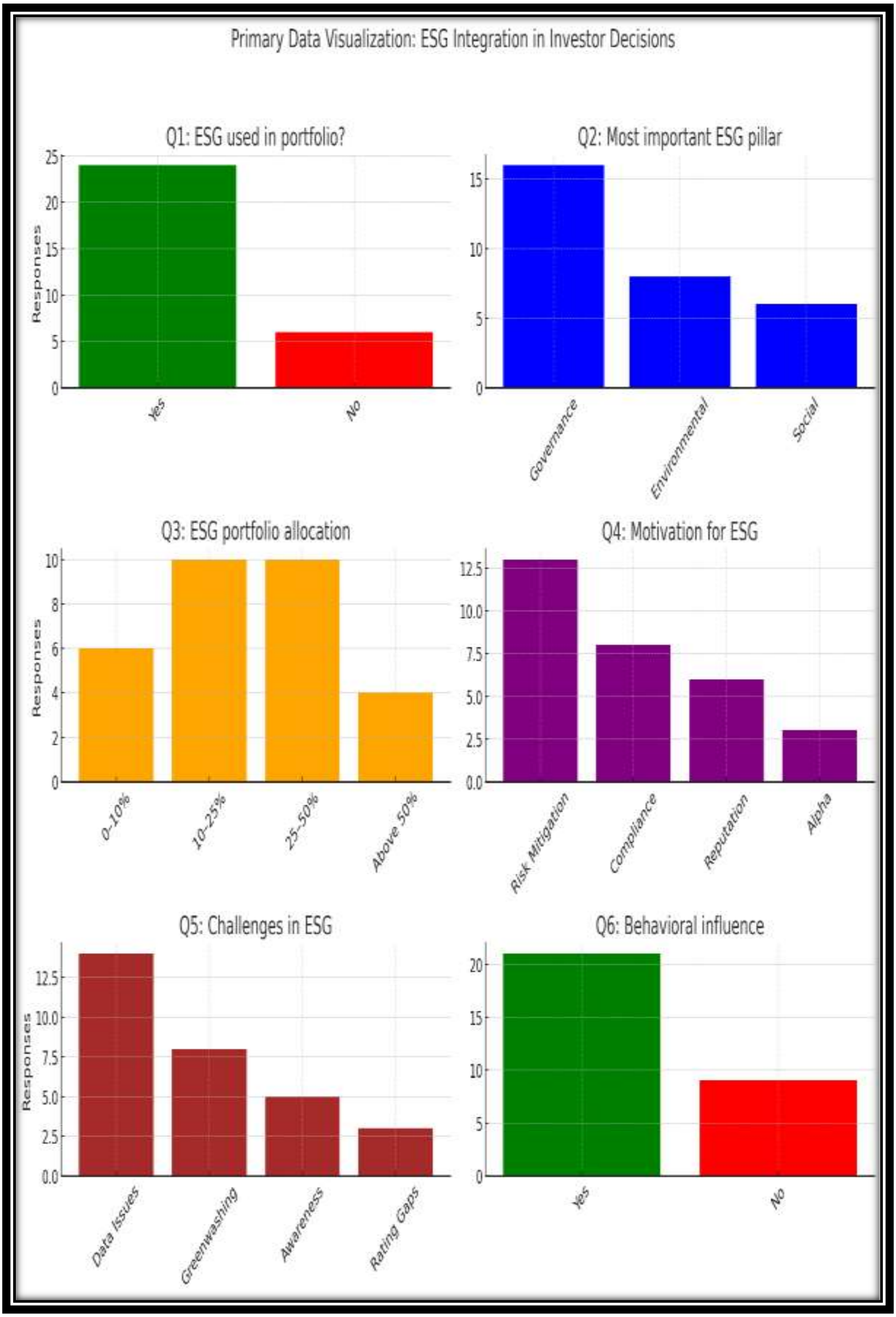
Widespread but shallow ESG usage: While 80% of institutional investors consider ESG in investment decisions, actual allocations remain modest (10–25% for most). This suggests that ESG integration is more exploratory than embedded in many portfolios.

Governance Dominance: Governance metrics—board structure, ethical conduct, and audit controls are prioritised over environmental or social factors. This reflects a cautious approach focused on mitigating regulatory and reputational risks.

Risk & Regulation over Alpha: ESG adoption is primarily driven by the desire to reduce downside risk or meet compliance obligations—not necessarily to outperform the market.

Behavioural Biases Present: A significant share of investors acknowledges psychological factors like risk aversion and status quo bias, which may slow the transition to higher ESG allocation despite awareness.

ESG Data Reliability is a Major Barrier: The greatest roadblock cited is the lack of reliable, comparable ESG data and fear of greenwashing, aligning with global findings.


Primary Data Visualization: ESG Integration in Investor Decisions
Q1: ESG used in portfolio?
Responses
Yes
No
Q2: Most important ESG pillar
Governance
Environmental
Social
Q3: ESG portfolio allocation
0-10%
10-25%
25-50%
Above 50%
Q4: Motivation for ESG
Risk Mitigation
Compliance
Reputation
Alpha
Q5: Challenges in ESG
Data Issues
Greenwashing
Awareness
Rating Gaps
Q6: Behavioral influence
Yes
No

Here is the **visual representation of primary survey data** on ESG integration in investor decision-making:

- Most investors (80%) use ESG in portfolio selection.
- Governance is the top priority among ESG pillars.
- A majority allocate only 10–25% of their portfolio to ESG-compliant companies.
- Risk mitigation is the main driver for ESG integration.
- Data quality issues are the biggest challenge.
- Behavioural biases influence 70% of investor decisions.

Regulatory Push Driving ESG Integration

Indian firms have been increasingly compelled to integrate ESG considerations into corporate and investment decisions due to mandates from regulatory bodies, especially the Securities and Exchange Board of India (SEBI), BRSR (Business Responsibility and Sustainability Reporting) Mandatory from FY 2022–23 for the top 1,000 listed companies. BRSR Core (from FY 2025–26) requires value-chain ESG disclosures, further integrating ESG into operational and procurement decisions.

Corporate Integration of ESG Metrics

Indian corporations are increasingly embedding ESG (Environmental, Social, and Governance) metrics into their core strategic and operational frameworks to align with both regulatory expectations and global sustainability goals. Environmentally, firms are tracking carbon footprints, energy intensity, and waste management practices, with many pledging net-zero targets. Socially, companies are prioritizing employee well-being, diversity and inclusion, human rights, and community engagement through structured CSR programs. Governance improvements include enhancing board independence, ethics policies, anti-corruption measures, and stakeholder transparency. Companies like Infosys, Tata Steel, and Mahindra & Mahindra have become ESG leaders, integrating sustainability KPIs into executive compensation and annual performance reviews. These efforts not only mitigate risk but also improve investor perception, access to capital, and long-term competitiveness, positioning ESG as a critical pillar of responsible corporate conduct in India.

Indian Companies with Financial Performance and High ESG Ratings (FY 2024–2025)

Company	CMP (Rs)	P/E (x)	Price / Sales (x)	Price to Operating Cashflow (TTM)	M Cap/ Sales (TTM)	RoE (Latest, %)	Dividend Yield (%)	D/E (Curr FY, x)
TCS	3,175.10	23.2	4.5	0	4.5	51.50%	4.00%	0
HERO MOTOCORP	4,367.00	19.3	2.1	0.1	2.1	22.80%	3.80%	0
INFOSYS	1,556.00	24.2	4	0	4	28.20%	2.80%	0
WIPRO	260.8	20.3	3.1	0	3.1	16.20%	2.30%	0.2
COLGATE	2,285.50	44.6	10.3	0.2	10.3	85.60%	2.20%	0
HUL	2,456.80	54.1	9.1	0	9.1	21.60%	2.20%	0

GODREJ CONSUMER	1,233.30	68.1	8.8	0	8.8	15.50%	2.00%	0.3
P&G HYGIENE	13,096.00	59.2	10.1	2.8	10.1	94.00%	1.90%	0
PAGE INDUSTRIES	47,365.00	72.5	10.2	3.9	10.2	51.80%	1.90%	0
MARICO	720	56.3	8.6	0.1	8.6	42.70%	1.50%	0.1
SHRIRAM TRANSPORT	654.5	13.1	2.9	0	2.9	16.70%	1.50%	4.2
CONTAINER CORPORATION	609.7	36.9	5.4	0	5.4	10.70%	1.50%	0
NESTLE	2,450.10	73.1	11.7	0.1	11.7	80.00%	1.10%	0.2
HDFC BANK	2,025.00	21.2	4.6	0	4.6	13.70%	1.10%	6.5
MARUTI SUZUKI	12,641.00	27.9	2.8	0.1	2.8	15.80%	1.00%	0
TATA MOTORS	690.5	11.1	0.6	0	0.6	20.10%	0.90%	0.5
TATA CONSUMER	1,062.70	76.2	6	0.1	6	6.90%	0.80%	0.1
M&M	3,265.00	32.4	2.6	0.1	2.6	18.30%	0.70%	1.6
ICICI BANK	1,487.70	18.8	6.7	0	6.7	17.40%	0.70%	6.5
BAJAJ HOLDINGS & INVESTMENT	13,976.00	314.8	227.3	-0.7	227.3	10.40%	0.70%	0
LUPIN	1,918.00	26.5	3.9	0.1	3.9	19.30%	0.60%	0.3
HAVELLS INDIA	1,570.00	69.8	4.5	0.1	4.5	17.70%	0.60%	0
ICICI LOMBARD GENERAL INSURANCE	1,938.60	36	0	0.2	0	17.60%	0.60%	0
TATA POWER	401.5	32.2	2	0	2	13.30%	0.60%	1.6
DIVIS LABORATORIES	6,640.00	80.5	18.8	0.4	18.8	14.60%	0.50%	0
SIEMENS	3,141.00	51.1	5	0.2	5	17.70%	0.40%	0
ACC	1,949.00	15.2	1.7	0.1	1.7	12.90%	0.40%	0
TITAN	3,465.00	92.2	5.1	-0.6	5.1	28.90%	0.30%	1.6
HDFC LIFE INSURANCE	762.2	87.3	0	0	0	11.50%	0.30%	0.2
AMBUJA CEMENT	620.2	29.7	4.4	0	4.4	9.70%	0.30%	0
SHREE CEMENT	32,143.20	103.2	6	0.7	6	5.20%	0.30%	0
JUBILANT FOODWORKS	660.1	184.1	7.7	0.1	7.7	18.80%	0.20%	0.7
AXIS BANK	1,105.50	12.3	2.7	0	2.7	15.10%	0.10%	7.5

KOTAK MAHINDRA BANK	2,170.80	19.7	6.6	0	6.6	14.10%	0.10%	3.8
ICICI PRUDENTIAL LIFE INSURANCE	629.1	72.1	0	0	0	9.90%	0.10%	0.2
INFO EDGE	1,472.50	66.6	37.6	0.2	37.6	2.00%	0.10%	0
AVENUE SUPERMARTS	4,040.10	97.1	4.9	0.2	4.9	12.70%	0.00%	0

Source: (equitymaster.com, 2025)

For the top 1,000 listed companies (by market capitalisation), the Securities and Exchange Board of India (SEBI) introduced the Business Responsibility and Sustainability Reporting (BRSR) framework in FY 2022–2023, replacing the Business Responsibility Report (BRR) and bringing ESG disclosures into line with international standards like GRI, SASB, and TCFD. A structured format for reporting on the nine fundamental principles listed in the National Guidelines on Responsible Business Conduct (NGRBC)—ethical governance, environmental stewardship, respect for human rights, employee well-being, and inclusive growth—is provided by this framework, which acknowledges the growing significance of ESG in the corporate and financial ecosystem.

Top Performing ESG Mutual Funds (2022–2025)

S.No.	ESG Mutual Funds	Annualized Return
1	Quantum ESG Best-in-Class Strategy Fund	5-year annualized return: ~20.2%
2	SBI ESG Exclusionary Strategy Fund	5-year return: ~19.1%
3	Axis ESG Integration Strategy Fund	5-year return: ~16.5%
4	ICICI Prudential ESG Exclusionary Strategy Fund	3-year average return: ~17.4%
5	Invesco India ESG Equity Fund	3-year average return: ~16.3%
6	Kotak ESG Opportunities Fund	3-year average return: ~12.1%
7	SBI Magnum Equity ESG Fund	Comparative analysis ~14–16% returns

Challenges in ESG Integration

Despite the increasing use of ESG frameworks in India, some challenges remain to facilitate seamless integration of ESG across companies and investment ecosystems. The foremost among them is the lack of standardization in ESG metrics and disclosures; ratings vary widely across providers (e.g., CRISIL, MSCI, Refinitiv), which can be confusing for investors and can reduce comparability. The data is not consistent, and assurance on ESG disclosures is not strong enough, which can lead to greenwashing, or the practice of companies presenting themselves as more sustainable than they are. Another key challenge is that SMEs have low adoption, mainly because of capacity constraints, compliance costs, and lack of awareness, whereas large corporations are increasingly conforming to SEBI Business Responsibility and Sustainability Reporting (BRSR), but SMEs do not have the expertise or infrastructure to collect, analyze, and report ESG data. Second, ESG professionals are in short supply across industries, especially in areas like sustainable finance, ESG auditing, and impact assessment. The dynamic nature of ESG rules (such as the launch of BRSR Core and value-chain reporting from FY 2025–26) also necessitates constant evolution, something that is difficult for many companies to handle. Unless these barriers are addressed systematically through regulatory clarity, capacity-building, and rating transparency, ESG integration may be diluted in its ability to achieve real impact across India's corporate and investment landscape.

Sebi and Future Outlook

The Securities and Exchange Board of India (SEBI) has been instrumental in mainstreaming ESG in Indian capital markets with the introduction of Business Responsibility and Sustainability Reporting (BRSR) for the top 1,000 listed companies from FY 2022–23 onwards, followed by the introduction of BRSR Core, a more stringent and standardized ESG reporting framework that will come into effect from FY 2025–26 requiring companies to report KPIs throughout their value chain, including suppliers and partners. It has also taken significant steps to regulate ESG rating providers (ERPs) by issuing guidelines on methodology transparency, issuer engagement, and mandatory disclosures of rating criteria to ensure the reliability and comparability of ESG scores.

Additionally, SEBI is contemplating mandatory assurance of ESG data by independent auditors to combat greenwashing and build investor confidence, which could pave the way for ESG to move from a voluntary to a compliance-driven framework, creating a more transparent, accountable, and investible ESG ecosystem. This outlook indicates that ESG will become a standard requirement for corporate governance and investor decision-making, and SEBI will continue to guide the framework toward standardization, credibility, and long-term sustainability in India's financial markets. (*Guidance Note for Business Responsibility & Sustainability Reporting Format, N.D.)*

Conclusion

This study provides critical insights into the evolving role of Environmental, Social, and Governance (ESG) factors in the portfolio decision-making process of Indian institutional investors during 2024–2025. The integration of ESG metrics has moved from a niche practice to a mainstream strategy, largely driven by regulatory reforms (such as SEBI's BRSR mandate), global sustainability pressures, and a growing recognition of ESG’s role in long-term risk mitigation. Based on both primary and secondary data, it is evident that while many investors acknowledge the strategic relevance of ESG factors, actual portfolio allocation to ESG-compliant assets remains modest, often constrained by behavioural biases, data quality issues, and greenwashing concerns.

The research revealed that governance metrics continue to be the most influential factor in ESG-based investment decisions, given their direct impact on corporate transparency, board accountability, and ethical conduct. Meanwhile, environmental and social aspects, though increasingly acknowledged, are yet to gain equal footing—particularly due to inconsistent disclosures and a lack of standardization in ESG ratings across agencies. Financial performance analysis also affirmed that companies with higher ESG scores, such as LTI Mindtree, TCS, and AU Small Finance Bank exhibited superior ROA and ROE, suggesting that ESG strength can align with profitability and resilience.

Furthermore, the primary data analysis underlined a clear behavioural dimension influencing ESG investing, with risk aversion, familiarity bias, and low awareness playing significant roles in shaping portfolio preferences. Despite these challenges, the momentum for ESG-aligned investing is expected to accelerate, fuelled by improved regulatory support, rising investor activism, and the growing visibility of sustainability-linked financial instruments such as green bonds and ESG ETFs.

In conclusion, while ESG integration in India is at an inflection point, its full potential will only be realized through enhanced investor education, standardized ESG rating frameworks, and the incorporation of ESG risk-adjusted performance metrics in mainstream financial analysis. Policymakers, rating agencies, and institutional investors must collaborate to close the ESG information gap and build a transparent, sustainable investment ecosystem that aligns with India's long-term development goals and global ESG commitments.

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