ESG scores of Nifty 50 companies

The need and awareness about deeper and stronger integration of businesses with the environment they operate in to achieve long-term sustainability has increased manifold in the recent years. This has made Environmental, Social and Governance (ESG) an integral part of business operations and processes. The COVID-19 pandemic has further forced companies to strengthen their sustainability initiatives, particularly on the Environment front. Sustainability/ESG reporting is an efficient tool through which companies can address their environmental and societal issues.

In this report, we have analysed the ESG performance of Nifty 50 companies[1] at sector level using ESG scores from Refinitiv[2]. Refinitiv ESG scores—ranging from 0 to 100—measure a company's relative ESG performance and effectiveness across ten themes focusing on "E", "S" and "G" pillars based on 630 company-level ESG data points. The sector-wise performance of 50 companies is analysed by calculating average scores across ESG categories for the last two years i.e., FY19-21. Our analysis shows a) Information Technology had been the top-rated ESG sector during FY19-21, thanks to strong performance across the three pillars, reflecting a high degree of transparency in reporting ESG data. This is followed by Industrials, and surprisingly so, aided by a meaningful improvement in the sector's Environmental score over the last few years, even as it has scored relatively poorly on the Governance segment. Utilities sector with high Government promoter ownership scored the lowest during this period, reflecting weak ESG performance, notably on the Environmental and Governance fronts. We also notice an appreciable improvement in companies' focus towards ESG during the first year of the pandemic, reflected in an increase in Environmental pillar score for 31/50 Nifty50 companies in FY21. Interestingly, sectors/companies don't perform equally across pillars, with our analysis showing significant variation in scores across the "E", "S" and "G" pillars.

Even as there has been a meaningful increase in demand for sustainable finance/investment over the last few years, penetration in India remains quite low. Some of the challenges include- a) Unavailability of standardized disclosures and formats, b) Lack of transparency and standardisation in ESG rating process and methodologies, c) lack of enabling regulations, and d) limited investor awareness. That said, things are clearly moving in the right direction, thanks to strengthened policy focus by the regulator (SEBI) as well as the Government. While the transition from BRR (Business Responsibility Report) to BRSR (Business Responsibility and Sustainability Report) should bring about transparency and standardisation in the ESG reporting framework (Please read our article on BRSR in the April edition of Market Pulse here), implementation of the proposed regulatory framework for ESG rating providers[3] should further improve transparency, accuracy and comparability of ESG-related data, thereby helping investors make judicious investments.

- **Sectors have generally scored the highest on "S" and the lowest on "G":** The sector-wise analysis of scores for Nifty50 companies across the three pillars of ESG shows that companies have generally performed better on the "Social" pillar, reflecting their strong focus on workforce, community, and human rights aspects. Sectors generally have had lower scores on the "Governance" front, thanks to lower shareholders and management score. The average Environmental pillar score over FY19-21 has been highest for Industrials, with huge improvement seen over the last five years, primarily attributed to effective use of resources, use of eco-efficient solutions and reduction in environmental emissions during this period. Financials has had the lowest average Environmental score over FY19-21, reflecting slower adoption of new technologies and processes. Communication Services has scored the highest on the Governance pillar, thanks to the sector's (Bharti Airtel) strong commitment towards following best governance practices and adopting an

[1] We have considered the Nifty 50 composition as of March 31st, 2022 for our analysis.
[2] https://www.refinitiv.com/content/dam/marketing/en_us/documents/methodology/refinitiv-esg-scores-methodology.pdf
[3] https://www.sebi.gov.in/reports-and-statistics/reports/jan-2022/consultation-paper-on-environmental-social-and-governance-esg-rating-providers-for-securities-markets_55516.html

effective CSR strategy. This is followed by Information Technology that ran a close second, while Utilities has scored the lowest.

Sectors have generally performed relatively better on the social aspect, led by Information Technology yet again, while Communication Services has scored the lowest, contrary to its performance on the Governance front. Among Nifty 50 companies, PSUs have had relatively lower scores on the Environment and Government pillars given shortcomings on multiple indicators that comprise these scores, notably environmental innovation, shareholders, and management scores.

- **Focus on the "E" pillar of ESG strengthened in the first year of COVID, the "G" pillar takes a beating:** The COVID-19 pandemic has become a major turning point for businesses to become more environmentally responsible and sustainable which is reflected in Environmental Pillar scores that have improved and strengthened across most of the sectors in the first year of the pandemic (FY21). The improvement has been led by Communication Services that has seen its Environmental score increase by more than 12 points in FY21. This is followed by Health Care that has seen a steady improvement over the last five years. In fact, barring Utilities and Energy, all sectors have seen a stable (IT) or rising Environmental pillar score over the last five years. At company level, 31 out of 50 Nifty 50 companies saw their Environmental Pillar score rising in FY21. Performance of companies on the Governance pillar has not been as encouraging, with half of the Nifty 50 universe seeing a drop in their Governance scores in FY21.
- **Scores across the three pillars vary widely across sectors:** Our analysis shows that there has been significant disparity in companies' focus on different pillars of ESG. The average score for the Industrial sector was the highest among sectors in the Environmental pillar but among the lowest in the Governance category. Likewise, Utilities and Energy sectors also have a huge variation in scores across three pillars with both sectors scoring better in the social pillar, but poorly in the Governance pillar. Among sectors, scores of Consumer Discretionary and Materials have been in a very tight band across the Environmental, Social and Governance pillars over the last three-year period.
- **Does better ESG scores translate into higher institutional share?** Evidence of better ESG scores translating into higher institutional ownership is limited at the current juncture given nascent stage of ESG investments in India. Even as the AUM (Assets Under Management) of ESG-focused funds has grown more than 4x over the last two years to ~Rs120bn as of March 2022, it is still less than a percentage of total AUM in India, much lower than nearly one-third for global ESG investments. Some of the challenges include- a) Unavailability of standardized disclosures and formats, b) Lack of transparency and standardisation in ESG rating process and methodologies, c) lack of enabling regulations, and d) limited investor awareness. Our analysis also shows little correlation between institutional ownership and ESG scores. For instance, institutional ownership is by far the highest in Financials, and understandably so given the huge weight of the sector in the Index, even as the sector had the second lowest ESG score over FY19-21.
- **Policymakers moving in the right direction:** Several measures have been taken by the Government to drive forward its sustainability initiatives such as the PLI (Production Linked Incentive) scheme for solar module manufacturing and green bonds for financing climate adaptation and climate mitigation projects, among others. Over years, RBI has also taken a slew of measures steps to provide a fillip

to green financing, including the most recent step to set up Sustainable Finance Group (SFG) to discuss issues pertaining to sustainable finance or climate risk with the international setting bodies. While the green bond market is still nascent in India, cumulative issuances during FY12-20 were the second highest among emerging markets. SEBI's decision to transition from BRR to BRSR should bring about transparency and standardisation in the ESG reporting framework. Additionally, SEBI's recent proposal to regulate ESG rating providers improve transparency, accuracy, and comparability of ESG-related data, thereby helping investors make judicious investments.

Table 1: ESG scores across pillars and sectors over FY17-21

Sectors	ESG Scores over FY17-21				
	FY17	FY18	FY19	FY20	FY21
Environment					
Communication Services	37	38	44	44	56
Consumer Discretionary	49	52	54	56	56
Consumer Staples	64	55	59	58	62
Energy	61	62	57	54	59
Financials	27	30	32	40	42
Health Care	38	45	50	52	57
Industrials	70	76	80	92	94
Information Technology	70	69	65	65	65
Materials	53	55	57	59	64
Utilities	45	43	45	46	49
Social					
Communication Services	40	56	54	52	53
Consumer Discretionary	50	51	58	61	62
Consumer Staples	85	72	72	71	74
Energy	80	71	71	74	74
Financials	56	57	58	62	63
Health Care	58	62	66	66	70
Industrials	47	48	56	67	75
Information Technology	87	89	89	90	88
Materials	62	60	61	64	65
Utilities	62	65	62	67	63
Governance					
Communication Services	74	69	76	72	80
Consumer Discretionary	56	53	54	56	52
Consumer Staples	53	41	41	52	55
Energy	35	41	39	42	40
Financials	56	61	57	50	51
Health Care	66	73	73	68	64
Industrials	35	38	33	44	47
Information Technology	67	71	77	75	72
Materials	53	46	55	50	52
Utilities	30	25	25	26	23

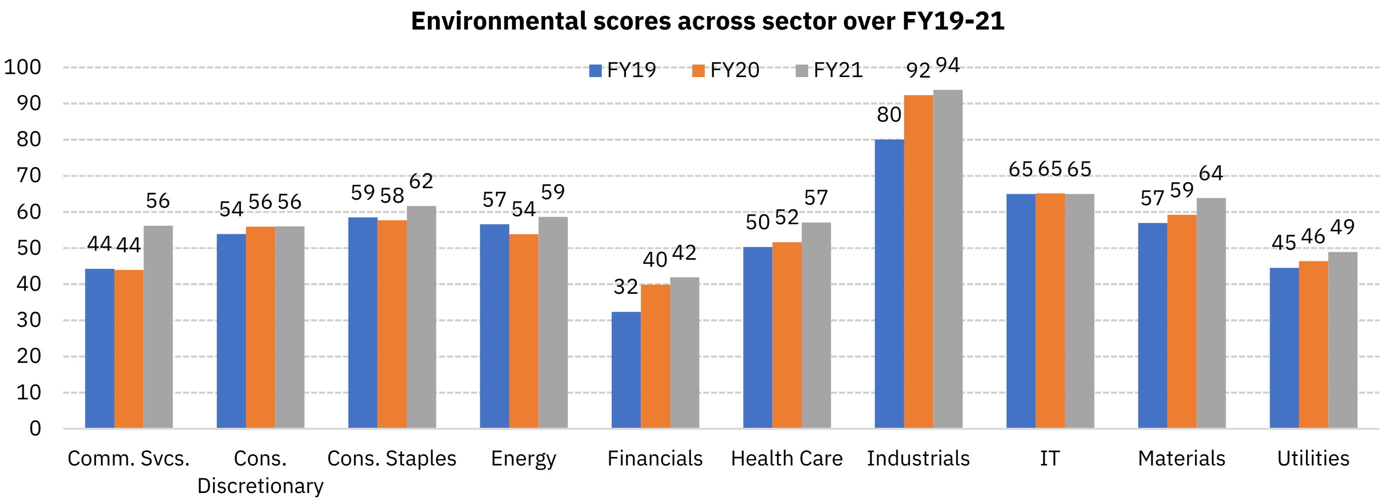
Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

Table 2: Sector-wise scores across ESG pillars for FY21

Category	Comm. Svcs.	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	IT	Materials	Utilities
Environmental Pillar Score	**56.2**	**56.0**	**61.7**	**58.6**	**41.9**	**57.1**	**93.8**	**65.0**	**63.9**	**48.9**
Resource Use Score	88.3	64.8	63.3	62.2	48.6	70.3	95.6	90.0	65.8	78.3
Emissions Score	63.5	65.6	56.0	73.5	63.3	57.1	98.4	93.7	73.7	49.9
Environmental Innovation Score	11.1	43.2	62.7	27.6	34.2	12.1	73.2	31.8	40.2	14.5
Governance Pillar Score	**79.6**	**51.1**	**54.6**	**39.5**	**51.0**	**63.5**	**46.9**	**71.7**	**51.7**	**22.7**
Shareholders Score	83.5	58.1	44.1	32.5	40.4	68.0	43.9	44.1	62.8	19.1
Management Score	74.9	46.9	57.9	32.1	55.0	64.7	39.3	77.6	42.4	19.8
CSR Strategy Score	97.7	61.5	53.9	87.3	46.8	50.9	89.4	83.8	81.7	42.7
Social Pillar Score	**53.1**	**64.2**	**74.2**	**74.1**	**62.9**	**70.2**	**74.7**	**88.3**	**63.4**	**63.1**
Workforce Score	78.2	70.8	71.8	73.3	65.2	69.9	73.7	96.1	65.1	61.6
Community Score	71.2	79.8	86.8	76.6	68.0	73.6	62.7	91.9	73.8	43.1
Human Rights Score	63.2	51.1	70.4	67.9	42.1	69.7	78.8	85.5	52.7	71.4
Product Responsibility Score	13.8	62.9	71.2	87.2	71.4	72.1	92.8	80.2	74.4	89.1

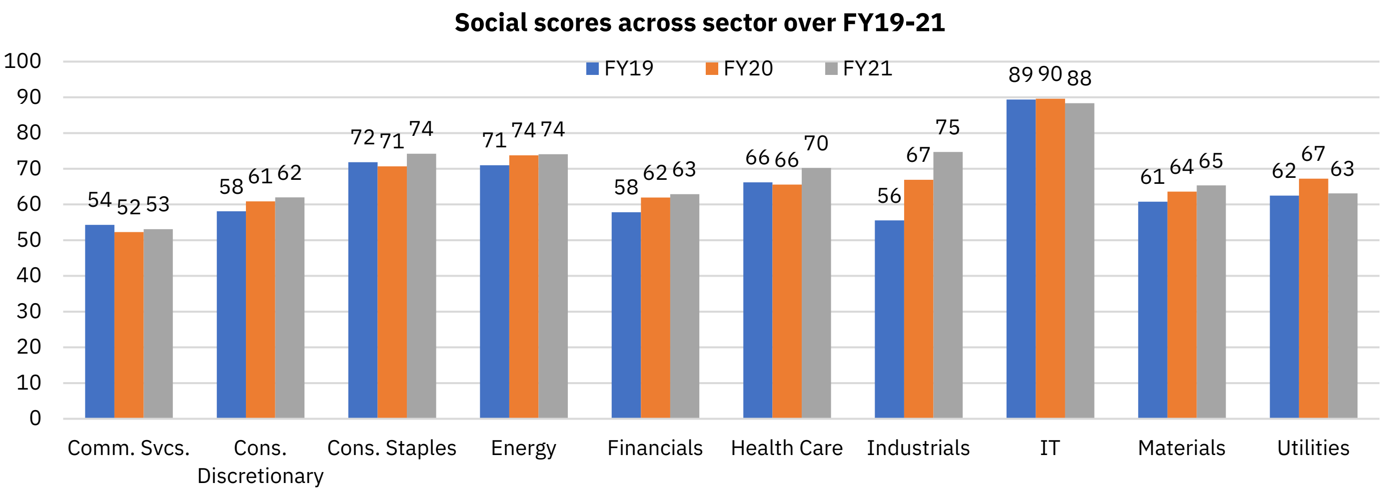
Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

Figure 1: Environmental scores across sectors over FY19-21



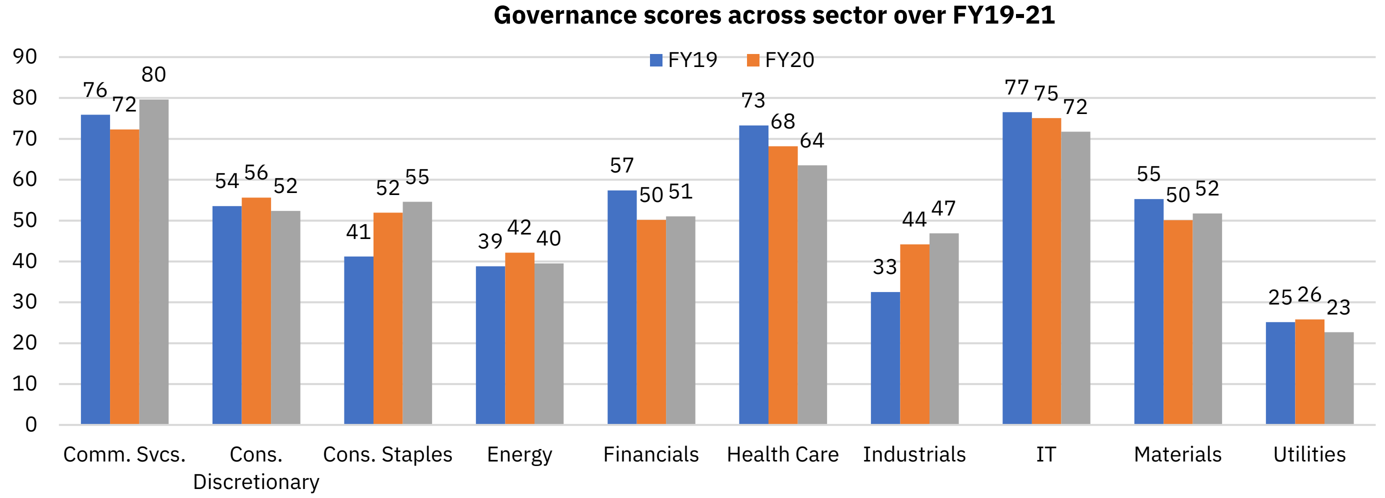
Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

Figure 2: Social scores across sectors over FY19-21



Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

Figure 3: Governance scores across sectors over FY19-21



Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

IT leads in terms of average ESG scores over FY19-21; Utilities is a laggard: The average Environmental pillar score over FY19-21 was the highest for Industrials, with huge improvement seen over the last five years, primarily attributed to effective use of resources, use of eco-efficient solutions and reduction in environmental emissions during this period. Financials has had the lowest average Environmental score, reflecting slower adoption of new technologies/processes. Communication Services has scored the highest on the Governance pillar, thanks to the sector's strong commitment towards following best governance practices and adopting an effective CSR strategy. This is followed by Information Technology that ran a close second, while Utilities—largely comprises of Government-owned companies—has scored the lowest. PSUs have had relatively lower scores on the Environment and Government pillars given shortcomings on multiple indicators that comprise these scores. Sectors have generally performed relatively better on the social aspect, led by Information Technology yet again, while Communication Services has scored the lowest, contrary to its performance on the Governance front.

Figure 4: Sector-wise average scores for the Environmental pillar over FY19-21

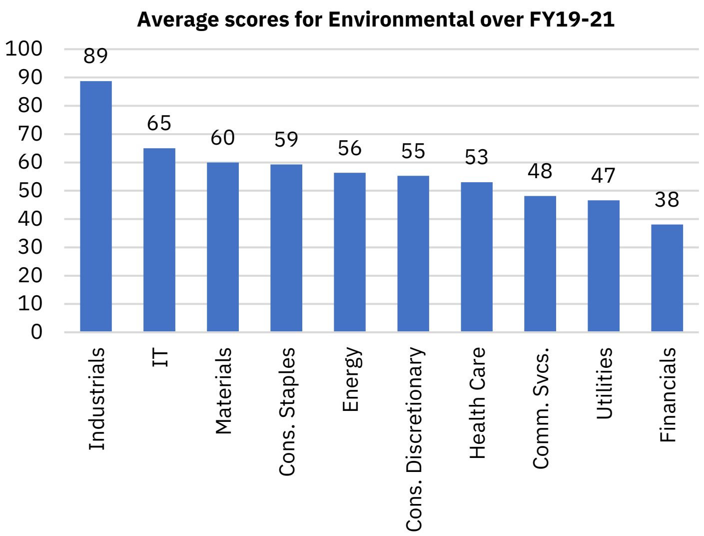
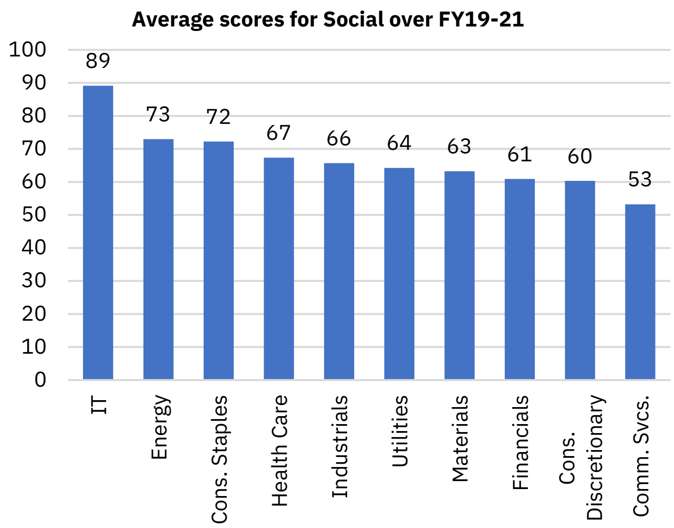


Figure 5: Sector-wise average scores for the Social pillar over FY19-21



Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

Figure 6: Sector-wise average scores for the Governance pillar over FY19-21

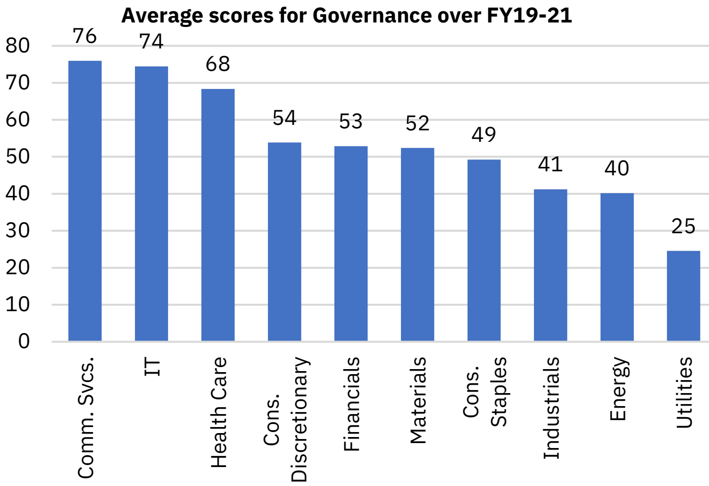
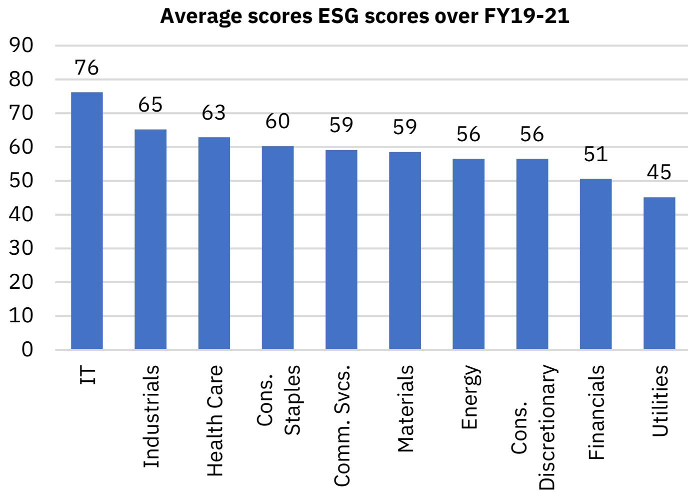


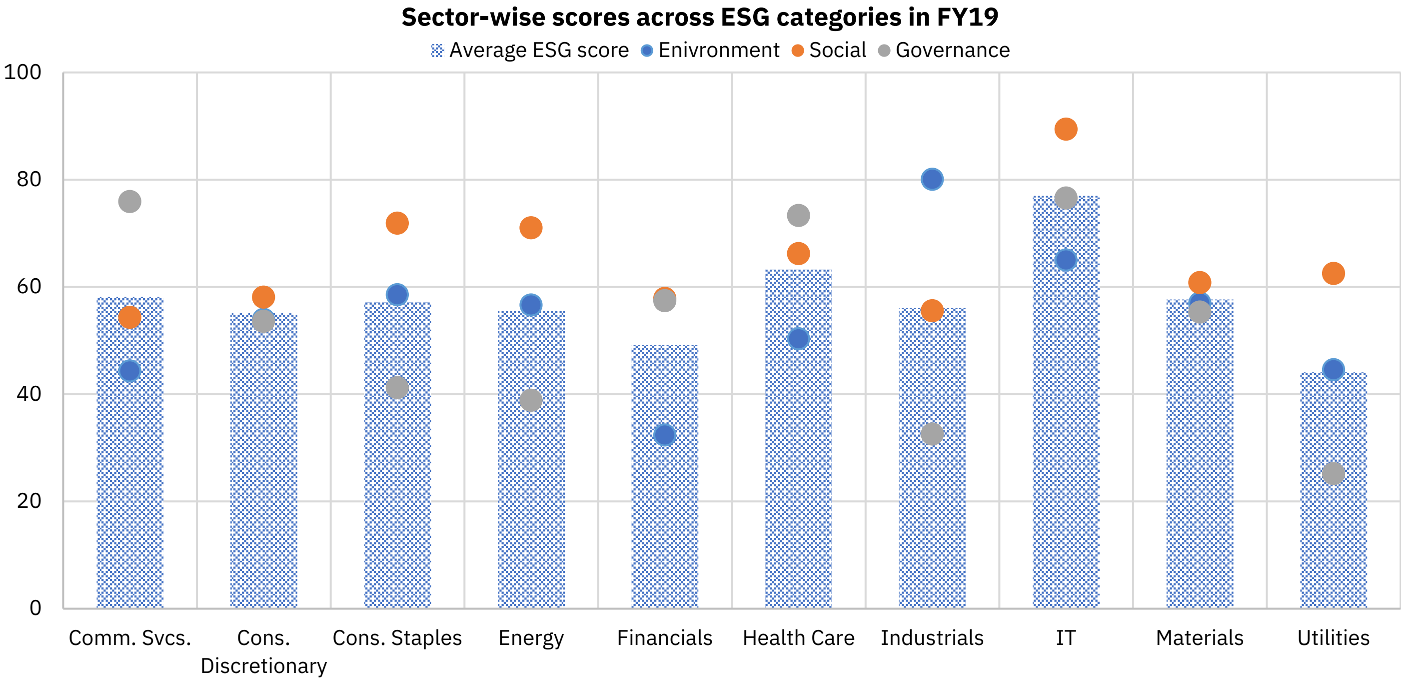
Figure 7: Sector-wise average ESG scores over FY19-21



Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

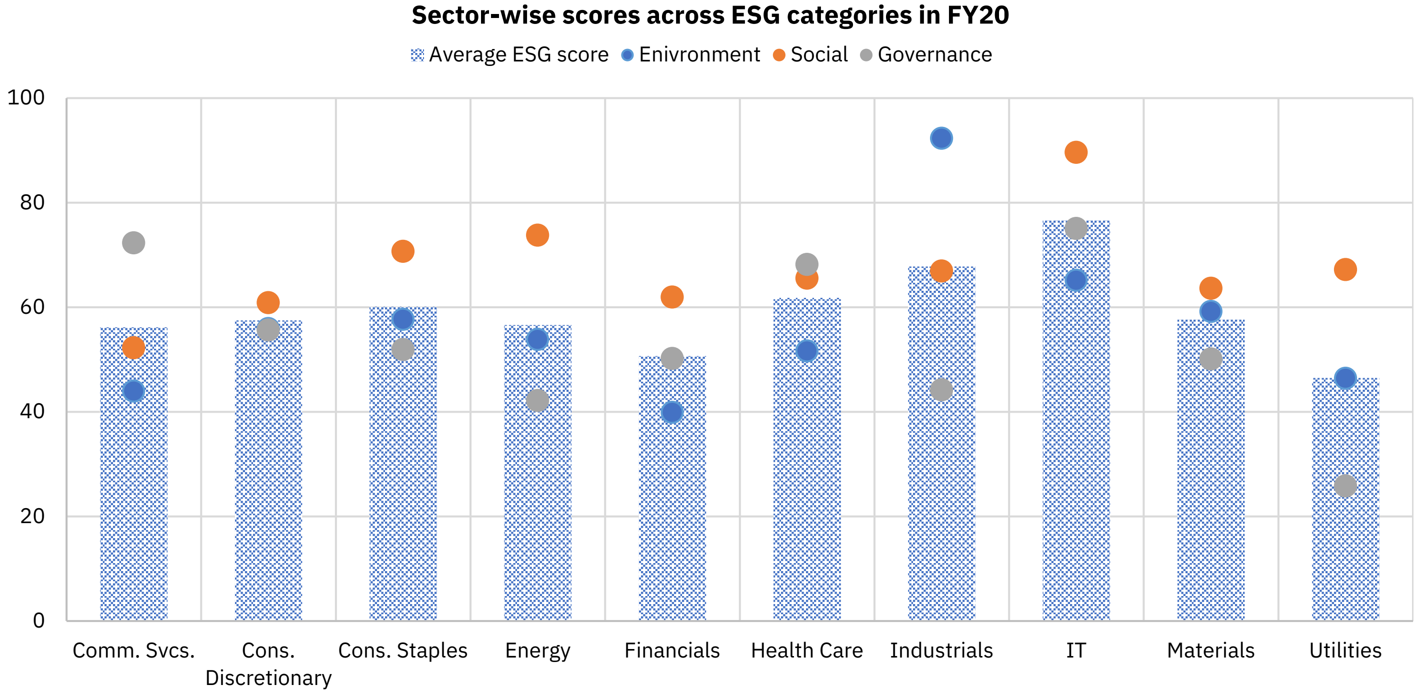
Scores across the three pillars vary widely across sectors: Our analysis shows that there has been significant disparity in companies' focus on different aspects of ESG, indicating lack of holistic approach towards becoming ESG-compliant. For instance, the average score for the Industrial sector was highest among sectors in the Environmental pillar but among the lowest in the Governance category. Likewise, Utilities and Energy sectors have also had a huge variation in scores across the three pillars during the period of this study, with both sectors scoring better on the social front, but poorly on the Governance category. Among sectors, scores of Consumer Discretionary and Materials have been in a very tight band across the Environmental, Social and Governance pillars over the last three-year period.

Figure 8: Disparity in "E", "S" and "G" scores across sectors in FY19



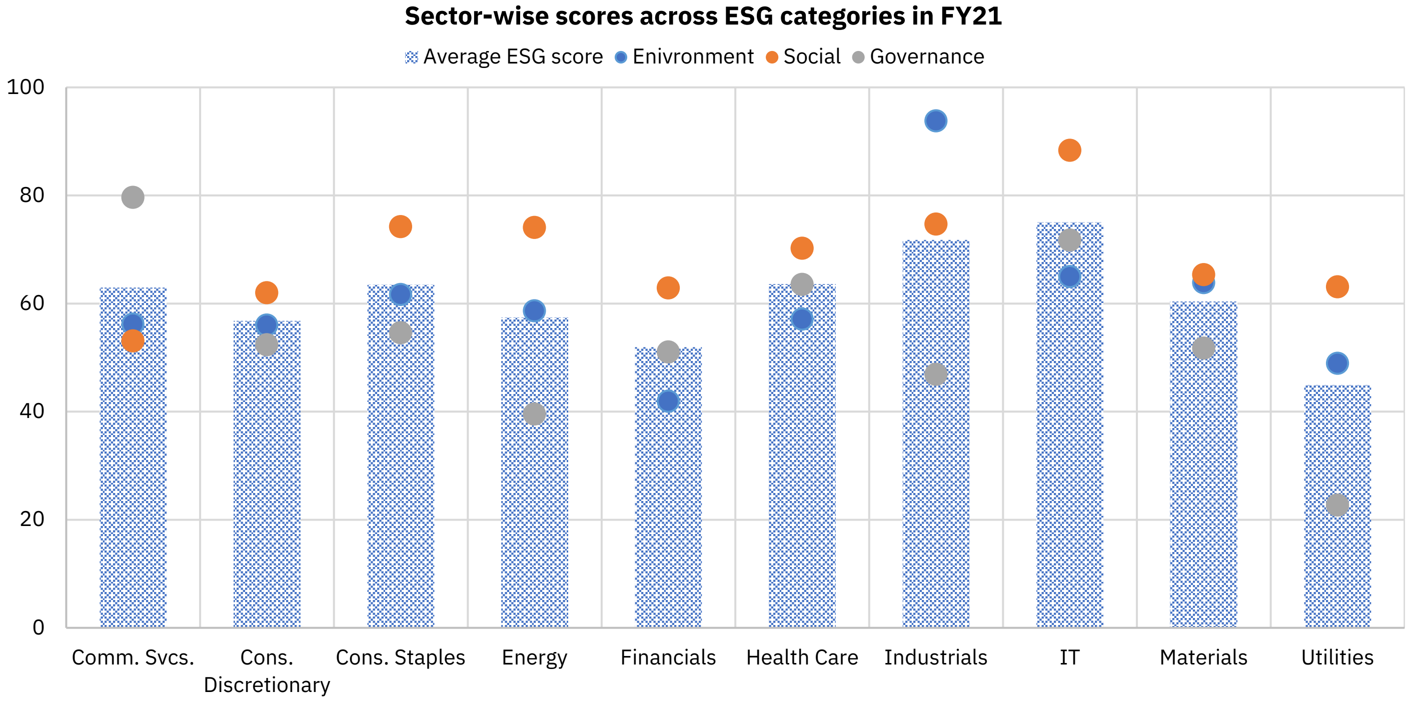
Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

Figure 9: Disparity in "E", "S" and "G" scores across sectors in FY20



Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

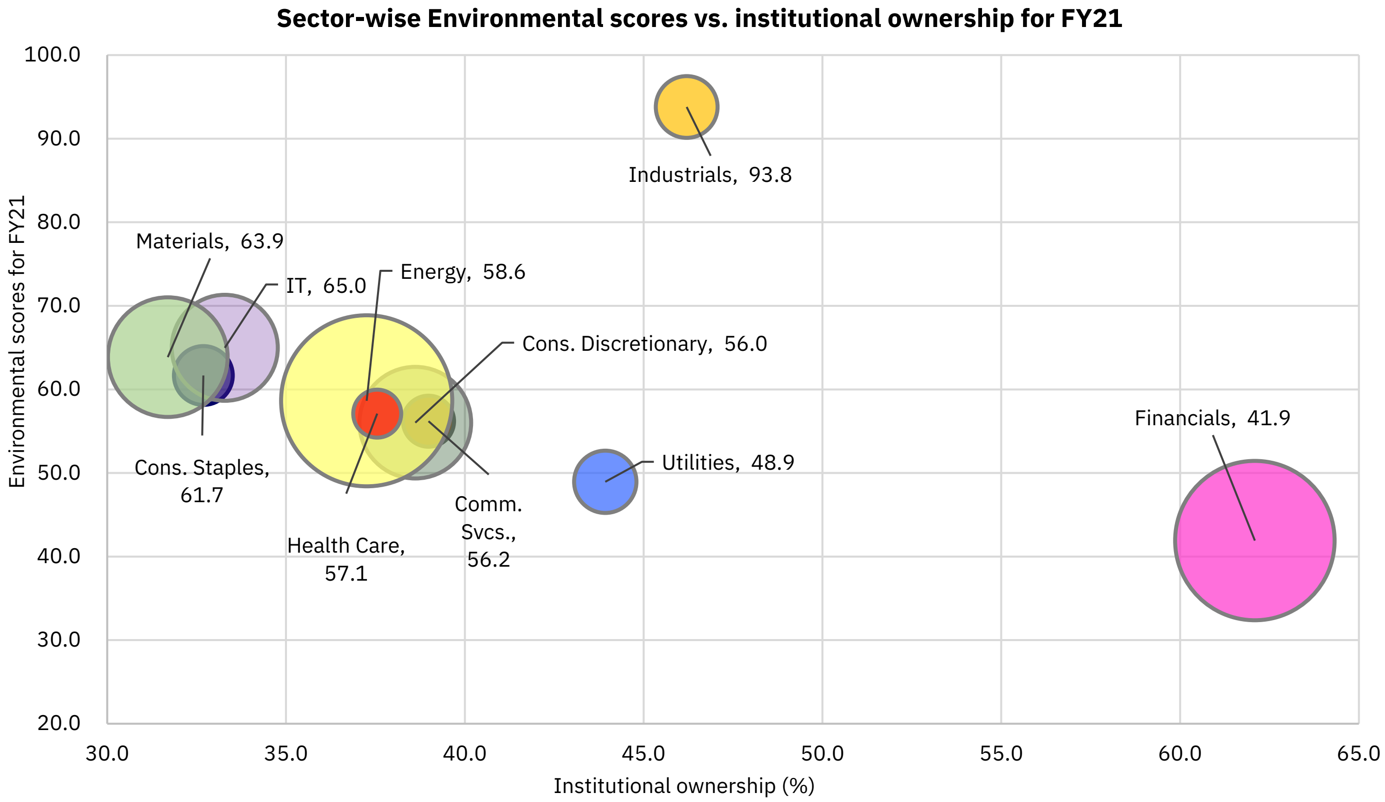
Figure 10: Disparity in "E", "S" and "G" scores across sectors in FY21



Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.

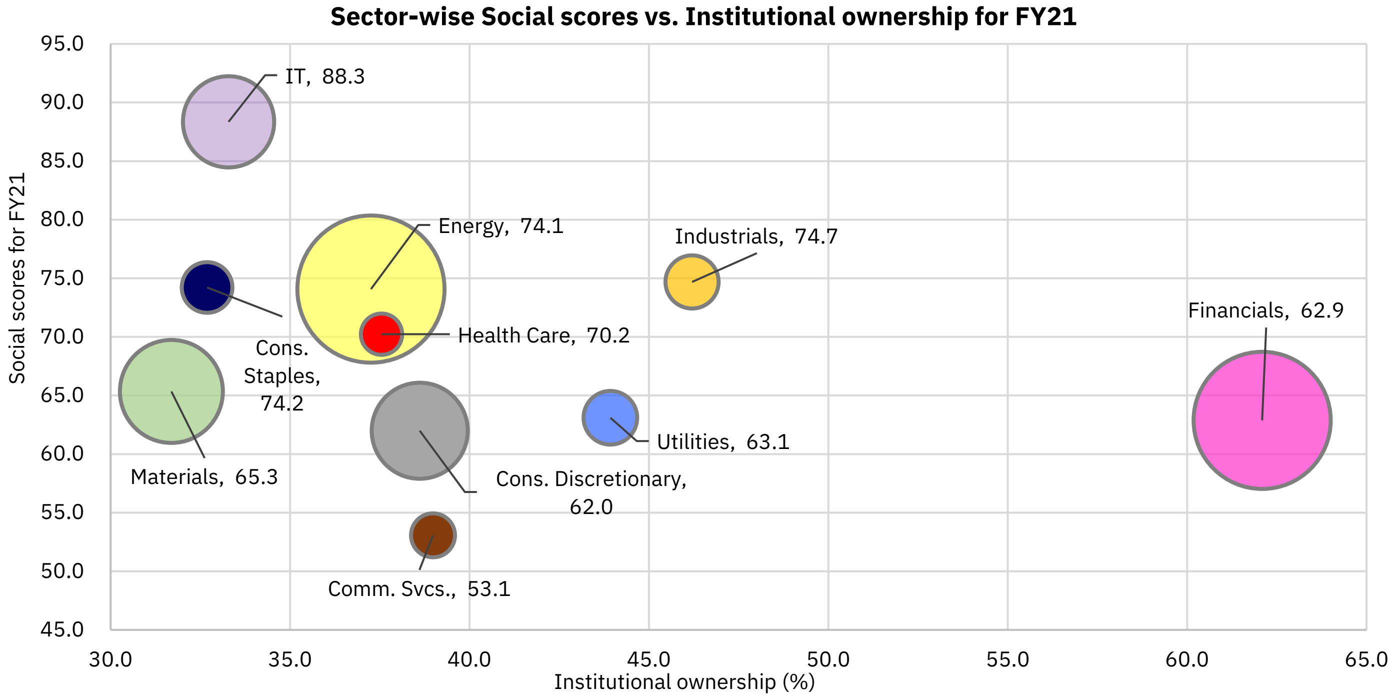
Does better ESG scores translate into higher institutional share? Evidence of better ESG scores translating into higher institutional ownership is limited at the current juncture given nascent stage of ESG investments in India. Even as the AUM (Assets Under Management) of ESG-focused funds has grown more than 4x over the last two years to ~Rs120bn as of March 2022, it is still less than a percentage of total AUM in India, much lower than nearly one-third for global ESG investments. Some of the challenges include a) Unavailability of standardized disclosures and formats, b) Lack of transparency and standardisation in ESG rating process and methodologies, c) lack of enabling regulations, and d) limited investor awareness. Our analysis also shows little correlation between institutional ownership and ESG scores. For instance, institutional ownership is by far the highest in Financials, and understandably so given the huge weight of the sector in the Index, even as the sector had the second lowest ESG score over FY19-21

Figure 11: Sector-wise Environmental scores vs. institutional ownership for FY21



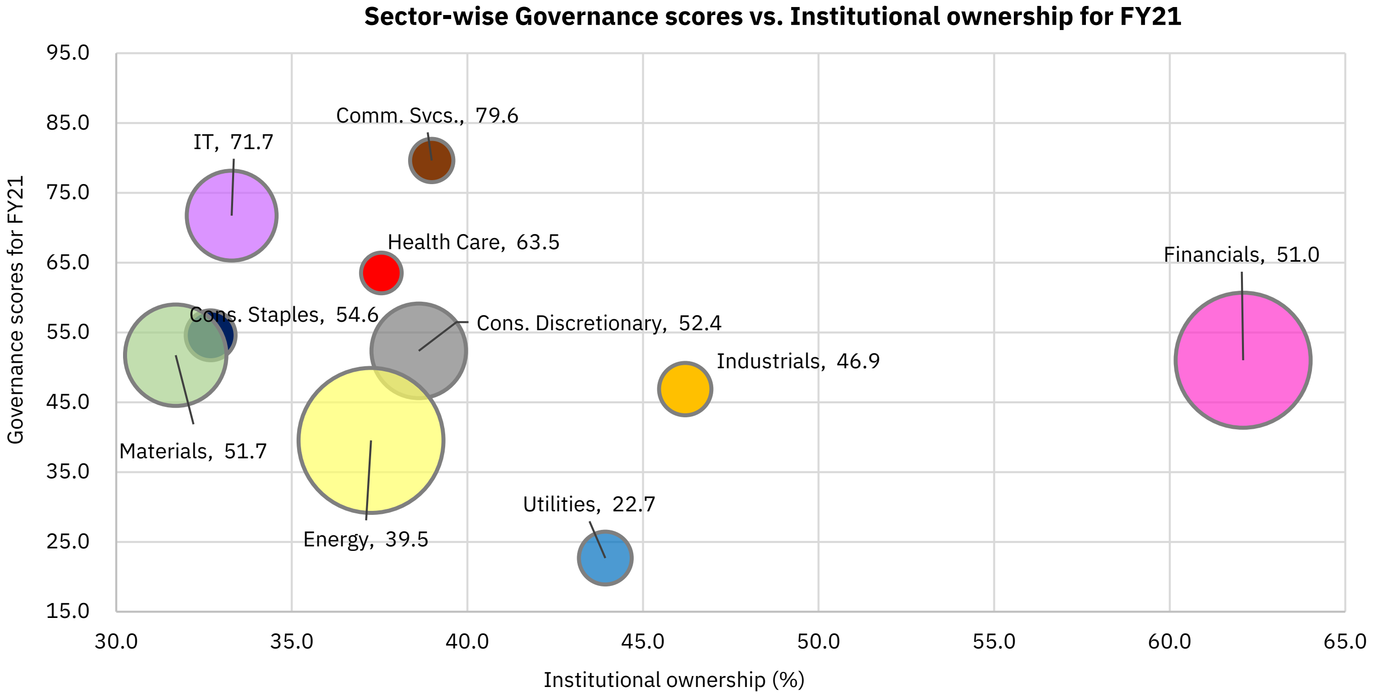
Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.
Note: 1. The size of the bubble indicates the aggregate revenue of the sector in FY21
2. Revenue for Financials is Total Interest Income.
3. Institutional ownership is the aggregate ownership of Domestic Mutual Funds, Foreign Institutional Investors, Banks, Insurance & other financial companies and other institutional investors as on March 31st, 2021.

Figure 12: Sector-wise Social scores vs. institutional ownership for FY21



Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.
Note: 1. The size of the bubble indicates the aggregate revenue of the sector in FY21
2. Revenue for Financials is Total Interest Income.
3. Institutional ownership is the aggregate ownership of Domestic Mutual Funds, Foreign Institutional Investors, Banks, Insurance & other financial companies and other institutional investors as on March 31st, 2021.

Figure 13: Sector-wise Governance scores vs. institutional ownership for FY21



Source: Refinitiv Datastream, NSE EPR. Note: Sector-level scores are simile average of scores of constituent companies.
Note: 1. The size of the bubble indicates the aggregate revenue of the sector in FY21
2. Revenue for Financials is Total Interest Income.
3. Institutional ownership is the aggregate ownership of Domestic Mutual Funds, Foreign Institutional Investors, Banks, Insurance & other financial companies and other institutional investors as on March 31st, 2021.

Refinitiv's ESG Rating Methodology

Refinitiv ESG scores—ranging from 0 to 100—measure a company's relative ESG performance and effectiveness across ten themes focusing on "E", "S" and "G" pillars based on 630 company-level ESG measures. Out of these 630 data points, a subset of 186 of the most comparable and relevant parameters for each industry are used to in the company's scoring process.

These data points are grouped into 10 categories under the respective "E", "S" and "G" heads, which are then used to generate scores on each of these three pillars. The ESG pillar score is a relative sum of the category weights. While these weights are same across sectors for the Governance category, they vary across sectors for the Environmental and Social categories.

Table 3: Three Pillar scores segregated into ten categories

Environmental pillar		Social pillar		Governance pillar	
Categories	No. of ESG measures	Social Pillar Score	No. of ESG measures	Categories	No. of ESG measures
Resource Use Score	20	Workforce Score	30	Management Score	35
Emissions Score	28	Human rights Score	8	Shareholders Score	12
Innovations Score	20	Community Score	14	CSR Strategy	9
		Product Responsibility Score	10		
Total	68	Total	62	Total	56

Source: Refinitiv, NSE EPR.

Table 4: List of Category scores and their description

Category Scores	Description
Refinitiv ESG resource use score	It indicates the company's city in minimizing the use of materials, and energy and finding more eco-friendly and efficient solutions by improving supply chain management.
Refinitiv ESG emissions reduction score	It measures company's responsibility to reduce environmental emissions in its production and operational processes.
Refinitiv ESG innovation score	It indicates the company's capacity to reduce the environmental costs by creating new market opportunities through novel technologies, or eco-efficient products
Refinitiv ESG workforce score	It assesses a company's efficiency in terms of providing job satisfaction, a healthy and safe workplace, and maintaining gender diversity and equal opportunities.
Refinitiv ESG human rights score	It determines the company's effectiveness in terms of respecting fundamental human rights conventions
Refinitiv ESG community score	It measures the company's responsibility towards protecting public health and respecting business ethics
Refinitiv ESG product responsibility score	It indicates the company's efficiency to produce quality goods and services, incorporating the customer's health and safety measures, and data privacy
Refinitiv ESG management score	It measures a company's commitment towards following corporate governance principles
Refinitiv ESG shareholder's score	It measures a company's effectiveness towards equal treatment of shareholders and the purpose of anti-takeover devices.
Refinitiv ESG CSR strategy score	It reflects a company's procedures to communicate that it incorporates economic, social, and environmental factors into decision-making processes

Source: Refinitiv, NSE EPR.

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We gratefully acknowledge the valuable contribution of Ms. Shreya Mangeshkar to this publication.