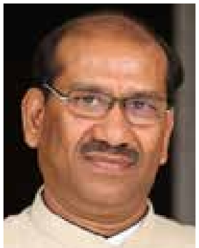

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Environmental, Social and Governance (ESG)

The landscape is charged, the horizon is tainted, and the sun never quit touches the surface. World over, there is realization about the importance of meeting ESG and Net Zero Goals. During the last COP 26 held in November 2021 at Glasgow, India has given commitment to be carbon neutral by 2070. Bringing up the share of Renewable energy to 50 % of the total energy usage by 2030 is also one of the major commitments given.

Commitments given by the Government is backed by numerous action points for the Government has been issuing guidelines and notifications on many fronts including regulating business impact on environment and society.

One of the many initiatives towards environment protection is allowing up to 20% ethanol – petrol mix . In fact 10% ethanol petrol mix is already achived 5 months before the deadline of November 2022. This has reduced the carbon emission by 2.7 Million Tons which has saved the country 5.5 Bn $ on oil imports and also boosted the farmers income by over 5 Bn $ in last 8 years .

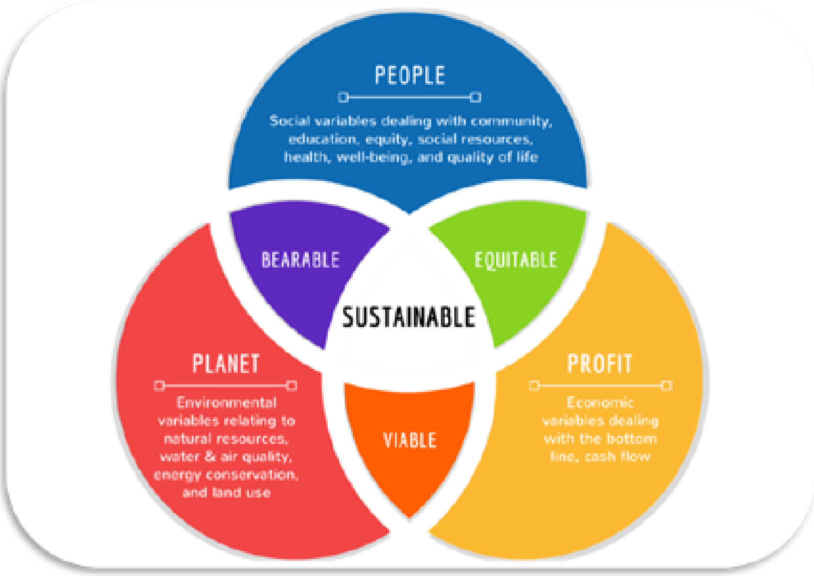
There are three Postulates of creation, Environment, Society and Business. ESG is an interwoven matrix for doing business having due consideration for environment and society. ESG matrix helps in a more equal / fair distribution of benefits to the society at large without compromising the business objects of the organisation Environmental, Social and Governance are a set of standards devised to structure the organisation's behaviour toward Environment, communities and all the stakeholders affected by the organisation's activities.

Business done so far has neither taken care of the environment nor of the society at large. ESG is an interwoven matrix for doing business having due consideration for environment and society. ESG matrix helps in a more equal / fair distribution of benefits to the society at large without compromising the business objects of the organisation.

It is about development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Businesses can develop sustainability and ESG Strategies that achieve net-zero and circularity goals in compliance with 2050 targets remain profitable while maintaining access to financing through banks and capital markets.

Sustainability in the business means creating balance between 3 Ps namely People, Planet and Profit. All these 3 elements need to co-exist for sustainable development. It can only be when business is Equitable to the People / Society, bearable for the Planet and also most importantly viable / profitable at the same time .



The government of India has taken various steps to safeguard the environment. Some of the steps are Swachh Bharat Mission, Green Silk Development Programme, Namami gange Program, Compensatory Afforestation Fund Act (CAMPA), National Mission for Green India, National River Conservation Programme, Conservation of Natural Resources and Eco-systems.

To assess and communicate the impact of organisation on parameters of environmental, society and corporate governance Global Reporting Initiative (GRI) was founded in Boston to provide independent standards, in 1997.

In 2015, at the United Nations Framework Convention, COP 21, the Paris Agreement was brought to life, and at the United Nations General Assembly the Sustainable Development Goals were created. The 2021 United Nations Climate Change Conference, COP26 was the 26th United Nations Climate change conference. The result of COP26 was the Glasgow Climate Pact, negotiated through consensus of the representatives of the 197 attending parties.

According to the European Green Deal, by 2050, all member states will have circular economies, having achieved net zero emissions. While the European Union (EU) has a head start, the United States also has bold plans to decarbonize the economy and aim for net-zero emission target by 2050.

Since 2019, European investors poured €120 billion into sustainable investment and investors are increasingly interested in how existing companies and startups are scoring on their ESG policies options, demonstrating the rising importance of ESG in Corporate Planning. Venture Capitalists and practices the United Nations Conference on Trade and Development (UNCTAD) estimates that the value of sustainability-related investment instruments (such as green bonds) reached between $1.2 trillion and $1.3 trillion in 2019 . Greenfield FDI in renewable energy totalled $85.5 billion globally in 2020, hitting new highs and eclipsing FDI in fossil fuels for the first time.

In India, the journey of ESG is much more recent. It started in 2011 with the framing of National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business (NVGs). BRR disclosure were mandatory for Top 1000 companies by market capitalization from Financial Year 2018-19. The name was changed to Business Responsibility and Sustainable Reporting (BRSR) from 2020. BRSR was voluntary for Financial Year 2021-22 but has become mandatory for Top 1000 listed.

At the United Nations Framework Convention, COP 21, the Paris Agreement is brought to life, and at the United Nations General Assembly the Sustainable Development Goals, 17 in numbers were created. These Goals are common for all the countries for a sustainable development, these goals inter alia include Poverty, hunger , education , health , peace , justice , gender equality etc etc.

ESG need is established beyond the statutory requirement. Business Responsibility and Sustainability Report which top 1000 listed companies are required to issue every year is an initiative towards ensuring that investors have access to standardized disclosures on ESG parameters. Proven effects include smoother operations, positive morale and market enthusiasm for the ethical stance of the company. Making investments in ESG can produce positive results beyond solid financial performance.

ESG Compliance and Reporting creates a good public relations story and helps in building a stronger corporate brand. A robust ESG program can open up access to large pools of capital. Fund managers use ESG considerations to identify risks and opportunities that could affect a firm's long-term sustainability. Many Corporates put ESG Compliances as a precondition to business relationships and tie-ups. Also the Government is likely to provide incentives to businesses in form of subsidies and differential interest rates for achieving ESG goals and committed by our Prime Minister in COP 21 summit.

ESG has become an integral part of business operations and an important part of all future investment decisions. With more and more organizations adopting strict ESG Polices for investing and vendor selection, it will become very difficult for organizations, not adopting ESG, to compete and survive.

Further, a strong ESG proposition helps companies to -

- tap new markets and expand into existing ones leading to strong growth..
- attract and retain quality employees, enhance motivation and increase productivity overall
- better brand appreciation and loyalty towards products of ESG compliant companies thereby allowing them better pricing and valuations.
- better customer loyalty and premium pricing of product and organisations pursuing good ESG Practices can help companies achieve higher profits and consumer satisfaction.
- achieve greater strategic freedom, easing regulatory pressure , it helps reduce companies' risk of adverse government action. It can also engender government support.
- enhance investment returns by allocating capital to more promising and more sustainable opportunities (e.g. renewables, waste reduction etc
- Lower energy and water consumption contributes to cost reduction and profit maximisation.

An analysis by CRISIL research reveals that 20% of 586 indian companies assessed come under strong and leadership matrix . And nearly 80 % companies got placed as weak / below average . However , the silver lining is that most companies saw improvement in their ESG scores , driven by better disclosure and improved performance on various parameters . Leaders on ESG demonstrated a clear commitment towards sustainability , and have continuously delivered superior performance. In contrast those in the weak category have poor disclosure and inadequate ESG risk management practices.

The consideration of ESG in the decision making is very low because of lack of fiduciary commitment for ESG quotient .For ESG to be truly embedded and practiced in spirit , all the stakeholders will have to work collaboratively. A mindful shift is necessary to transform from merely complying to creating value . The performance of companies on the environmental parameter are weaker , compared with social and governance , as per the study by Crisil.

On social aspects , public sector undertakings fared better than private companies. PSUs fared better on key parameters , such as gender diversity , attrition and pay disparity . On Governance practices , especially board composition (women directors / independent directors) and functioning , Private sector companies fared better .

ESG is for business organization what ECG is for Heart. ESG is now becoming a measure of health and pulse of business organizations and a must for survival of the business.