

G20 PRESIDENCY PAVES THE WAY FOR AN ESG-DRIVEN NEW WORLD ORDER

European and Local Dimensions of ESG - Some considerations for Indian companies

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FutureStation
Going Beyond 

JOURNEY EXCELLENCE IN ESG

**What does ESG mean
for an Organisation?**



ASPECTS OF ESG

Environmental

- Carbon Footprint Management
- Energy Use
- Waste / Circularity
- Water Use
- Biodiversity
- Innovation
- Climate Risk / Opportunity

Social

- Workforce and Diversity
- Recognition
- Engagement
- L&D
- Occupational /Product Safety
- Customer and Vendor Outreach
- Communities and Society

Governance

- Board Performance and Independence
- Management Track Record
- Shareholder Relations
- Disclosure Practices

This list is generic. Depending on sector there could be specific additional aspects

RECENT DEVELOPMENTS

ESG is an evolving contemporary topic. The emergence of ESG as a key parameter for business success has emerged globally in the last 5 to 7 years. The KPIs of ESG are evolving, the positions taken by the key players in the value chain are changing and the expectations of stakeholders – particularly investors, customers and regulators – are increasing. There is not a single business sector or any country that is unaffected or untouched by this movement of excellence in ESG.

RECENT DEVELOPMENTS

The way to measure and report ESG performance of companies is evolving too. Here are some of the prominent ones, *in no specific order*

CDP

CDP procures data on **Climate Change, Water Security and Forestry** (as relevant) from companies and prepares information to share with investors and customers for taking informed decisions. CDP also provides scores to companies depending on their relevant performance. **CDP's focus is on Environmental performance attributes**

TCFD

Primarily for investors who are concerned about the climate change related risks and opportunities of their investment portfolio, it is a disclosure recommendation through which companies can identify their potential climate related risks and opportunities, develop strategies and governance around managing the risks/opportunities. **TCFD is also being used by customers** for influencing supply chain. **TCFD's focus is on Environmental performance attributes**

RECENT DEVELOPMENTS

ECOVADIS

Ecovadis is a platform through which companies can obtain information about the ESG performance of their existing or potential supply chain. Like the other agencies, Ecovadis also procures data across all ESG KPIs from participating companies who are or intend to be a part of **supply chains** of major customers and provides rating. **ECOVADIS' focus is on Environmental, Social and Governance performance attributes**

GRI

Global Reporting Initiative is a standard for disclosing ESG performance. It is used globally by all stakeholders and possibly the most widely used ESG performance communication medium since many years. **GRI's focus is on Environmental, Social and Governance performance attributes**

ISSB

The International Sustainability Standards Board has just come out with disclosure standards IFRS S1/S2 that have combined many of the other standards with an aim to have a common disclosure standard. This is futuristic and one has to wait to watch how successful and well accepted this is to all stakeholders

RECENT DEVELOPMENTS

ESG RATING

Investors and Analysts worldwide are giving significant importance to ESG / Sustainability performance and the independent ESG rating agencies are providing inputs to them for taking informed decisions.

MSCI (<https://www.msci.com/our-solutions/esg>) and S&P (<https://www.spglobal.com/spdji>) are emerging as the most widely used ESG scoring agencies across sectors worldwide. Most of the investors, analysts, customers and financial institutions rely on MSCI and/or S&P scores of ESG in their decision making processes. While all these agencies are active in India, S&P's CRISIL ESG Ratings has covered maximum Indian companies in their annual ESG performance ratings since 2021

There are about 500 ESG rating agencies worldwide. Here we named some of them, in no specific order of merit

EUROPE

Focused towards 'E' aspects. 'S' and 'G' aspects are generally reasonably well taken care of

Within 'E' aspects – prominent is Climate Change, Carbon Management, Circularity, Biodiversity

Recent regulations that supply chains of European companies should consider seriously

CSRD – Compulsory Sustainability Reporting Directive

The CSRD is mandatory for :

- Listed companies
- Large companies that meet two of these criteria: More than 250 employees, net turnover of more than EUR 40 million, or total assets exceeding EUR 20 million.
- **Non-EU companies with at least one subsidiary in the EU and a net turnover of more than EUR 150 million.** Supply chain sustainability in focus

EUROPE

CBAM – Carbon Border Adjustment Mechanism

Products entering EU in select sectors will have an indirect carbon taxation. At present these sectors are cement, iron and steel, aluminium, fertilisers, electricity and hydrogen

EU – DR - European Union Deforestation-Free Products Regulation

Products entering EU in certain sectors like cattle, buffalo, the meat of bovine animals, preparations, Oil cake, soya beans, palm oil, cocoa bean, powder, chocolate, coffee, leather hide, skin, paper, paperboard, wood, wood articles, wood pulp, boards and wood furniture may get affected

Taxonomy – EU Taxonomy will encourage a transition towards sustainability in order to achieve the EU's climate and environmental goals – Expected to have impact on exports to EU – Life Cycle Impacts

INDIA

Businesses are changing their mindsets.

Concept of just Shareholders' worth is getting replaced by need to generate Stakeholders' Value

This Value Creation principle is not limited to just top 100 companies – it has touched several smaller companies too who are in the supply chain of larger companies or a part of global supply chain

The Indian framework for ESG Reporting – BRSR has started from this year (as a mandate) for top 1000 listed entities. We have to wait and watch how successful this will be – early signals do show promising results.

INDIA

Financial Institutions have incorporated ESG criteria in this funding decisions – Banks, PE funds, VC funds.....NBFCs like home loan companies have all joined the movement – ESG Risks are a matter of major concern in funding decisions / portfolio management

ESG parameters have got included in mainstream Risk Portfolio of companies and FIs. ESG and Climate Risks have started featuring in the top Risks and getting incorporated in ERMs.

Indian Boardrooms have started including in their Agenda matters that do not have \$ or INR prefix or suffix

Entrepreneurs are coming up to maximise on the ESG / Climate opportunities. Young and talented Indian professionals are returning back to the country to set up green ventures and join the India Growth Story. Innovation is getting encouraged with new products – eg. Animal protein from Food waste / Bio plastics

INDIA – SOME ESG CONCERNS

E – GHG Management / Water Management / Biodiversity Management / Waste Management

S – Diversity and Inclusion / L&D / Value Chain Outreach / Impactful CSR

G – Board Independence

Listed companies (top 1000) are expected to have started disclosure as per SEBI's BRSR directive. That impacts value chain. It is expected to have impact beyond just 1000. The recent SEBI circular (July 12, 2023) on framework for assurance of BRSR Core puts lot of importance to value chain. Several medium and smaller companies will have to embark on a journey of sustainability in order to retain business. SEBI has positively impacted a larger segment of companies beyond the leading 1000 listed ones.

On this promising note, I end my presentation. Jai Hind

DISCLAIMER

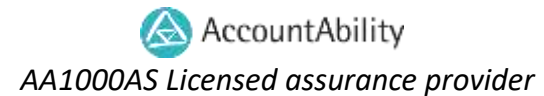
All views, observations are made based on our experience of working with several corporates in India and Europe. They should not be considered as comprehensive assessment of ESG landscape / challenges / aspects



Thank you

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**Creating Value through
ESG**

