ESG Investments for Sustainability with Superior Returns in Indian Equity Market

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Abstract

Sustainability has gained the attraction of policy makers, corporates, investors and other stakeholders across the world. The Environment, Social and Governance (ESG) investing has emerged as an attractive option for those seeking to balance profitability with sustainability. The present study explores performance of Nifty ESG 100. The returns of Nifty ESG 100 were compared with benchmark index of Nifty 50. The data is analysed using paired t test. The secondary data is collected from April 2011 to September 2022 from National Stock Exchange. Further the paper examines the performance of Nifty 50 and ESG 100 before and after the start of Russia Ukraine War. It was found that Nifty ESG 100 has outperformed Nifty 50 in short term and long term.

Keywords: *India, Nifty ESG 100, Nifty 50, Russia Ukraine War, Sustainability, Investing*

1. Introduction

Benjamin Graham's concept of value investing is considered as he first wave of investing. It attracted attention of the investing community. The 2nd wave came with Harry Markowitz's modern portfolio theory. Fund managers globally adopt both the styles of investing. The latest trend is Environment, Social and Governance (ESG) investing. ESG is being considered as the third wave of investing. Governance has gained significance in recent times (Tiwari et al. 2020). ESG is fast gaining ground and attracting the attention of fund mangers and investors globally. The popularity of ESG is reflected in share of ESG in total investments. Perception significantly influences behaviour (Chand et al. 2022). As on March 2022, ESG constitutes 10% of all assets worldwide. The ESG investments have grown from US $ 285 billion in 2019 to US $ 649 billion in the first eleven months of 2021 (Singh, 2022). SEBI has issued guidelines for leading one thousand firms in India to file Business Responsibility and Sustainability Report. It needs to be field from financial year 2021. Fund managers have an opportunity to make a social impact by following ESG (Singh, 2022). Governance is crucial for sustainability (Tiwari et al, 2022).

Sustainability has gained attention of policy makers and fund managers after Covid and recent unpredictable trends in environment. Fund managers are busy and have launched ESG products in previous two years. Leaders will influence governance at grass root level (Tiwari et al. 2021). According to the Survey of CFA institute, seventy six percent of the institutional investors and sixty nine percent retail investors are positive towards ESG investments (Kumar, 2021). In 2020, 36% of assets under management belonged to ESG category (Kumar, 2021). India has the potential to attract US $ 1 trillion investments under ESG (The Hindu Business Line, 2022). ESG 100 index was launched with base date as 1st April 2011 and base value of 1000 based on Environmental, Social and Governance (ESG) risk score. The weight of each constituent in the index is tilted based on ESG risk score assigned to the company.

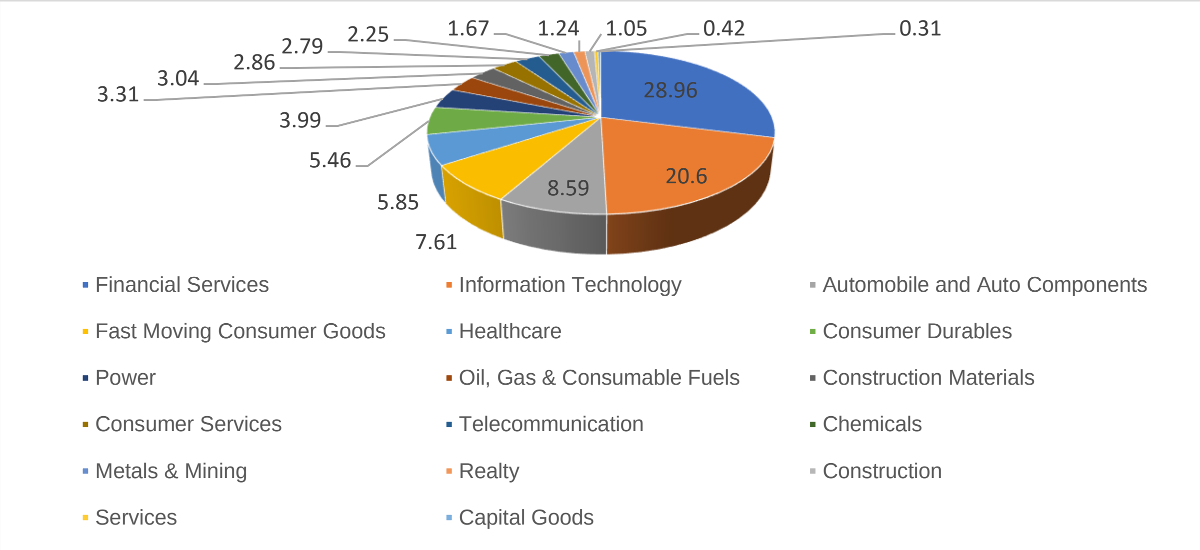

Figure 1. Sectoral Weightage of ESG 100 Index

2. Literature Review

Good governance leads to good management, which gets transformed into better returns for investors (Bird et al., 2006). Downside risk protection of ESG funds has been confirmed by Cox et al., 2004; Engle et al., 2020; Nofsinger & Varma, 2014; Ding et al., 2020.

Cornett et al. (2016) observed that during the global financial crisis of 2008 US firms with good record of social responsibility were better off as compared to other stocks. Lins et al. (2017) argued that stock with higher involvement in corporate social responsibilities (CSR) activities provided higher returns. In India, firms with good compliance of ESG had performed better in financial crisis of 2008 (Singh, 2013). Youngsters influence success of new age technologies (Kargeti et al. 2022). Broadstock et al., (2020) observed that investors consider ESG as a safe option in times of crisis. Target stakeholders use online mediums to gather information for their actions (Bharti et al. 2022). Engle et al. (2020) and Ding et al. (2020) also confirmed the different pattern of returns of ESG as compared to traditional indices. Between 1996 and 2013 Indian investors got better returns from firms with a good score on ESG as compared to other firms (Tripathi & Bhandari, 2015). Beloskar and Rao (2022) examined ESG returns in India during Covid. It was found that ESG helps to provide a downside protection in times of crisis and reduces volatility. In Arab region, ESG stocks were found to have low volatility by Mousa and Saleem (2022).

3. Methodology

A descriptive research design was used for the current study. Secondary data of stock index from NSE was used for the study. The closing values of Nifty 50 and ESG 100 was obtained from National Stock Exchange (NSE). The ESG 100 was launched on 1st April 2011. The daily closing values were considered from the Nifty fifty (50) and ESG 100 index. The time period was from 1st April 2011 till 22nd September 2022. Data was analysed using descriptive tools and paired t test. To examine the impact of war between Russia & Ukraine on Nifty fifty (50) and ESG 100, closing values of Nifty 50 and ESG 100 was considered for 75 days before and after start of war between Russia & Ukraine.

4. Findings

ESG 100 has consistently outperformed the market benchmark of Nifty 50 as shown in figure 2. The covid has led to a sharp decline in ESG 100 and also benchmark Nifty 50. Both indices have shown a healthy recovery in 2021 and 2022. The ESG 100 has outperformed Nifty 50. ESG has given consistently better returns as compared to Nifty 50. Even in 2011, ESG 100 has given returns of -7.88% which is better than Nifty -8.72%. ESG 100 has ability to withstand the adverse market sentiments and loss of ESG is lower than loss of Nifty 50 as evident in 2011. ESG has provide a return of 6% over a period of 3 years as compared to 4.88% of Nifty 50. ESG 100 has yielded returns of 7.23% over a span of five years as compared to 5.77% of Nifty 50. The seven-year return of ESG 100 was 11.89% as compared to 10.43% of Nifty 50. ESG 100 has yielded returns of 13.40% over a span of ten years as compared to 11.73% returns of Nifty 50 in the same period.

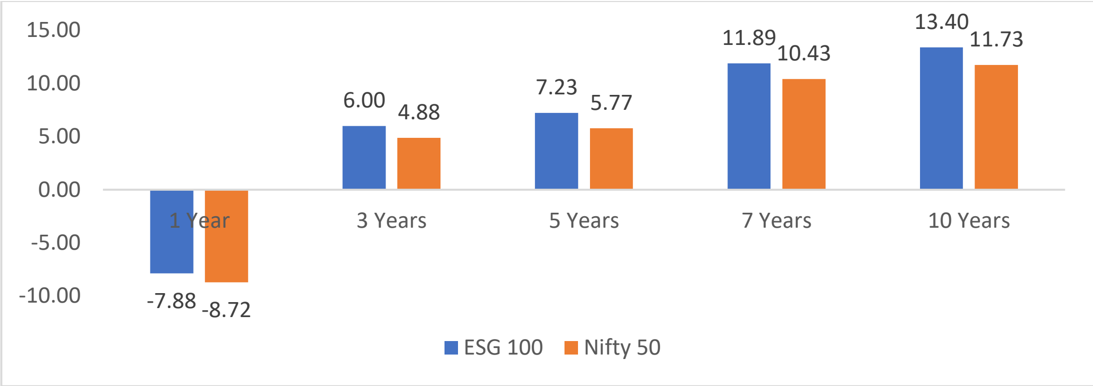

Figure 2. Long Tern Returns of Nifty 50 and ESG 100

Source: Compiled from NSE

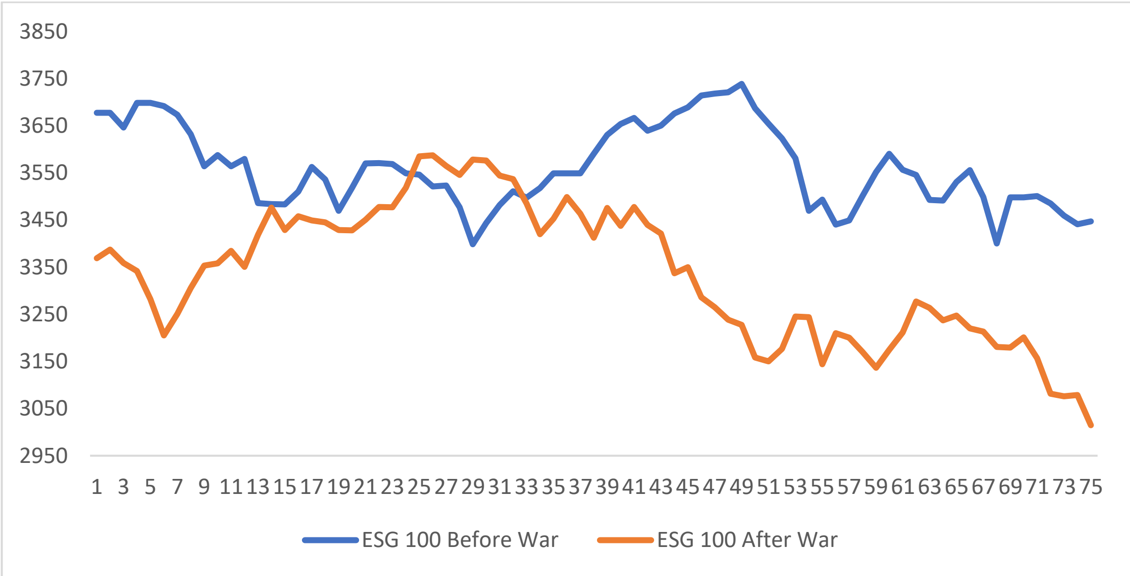

Figure 3. The Trend of ESG 100 Before and After Russia Ukraine War (75 Trading Days)

The Russia Ukraine war had an adverse impact on equity markets. ESG 100 had shown a bearish trend after 30 days of start of war as shown in figure 3.

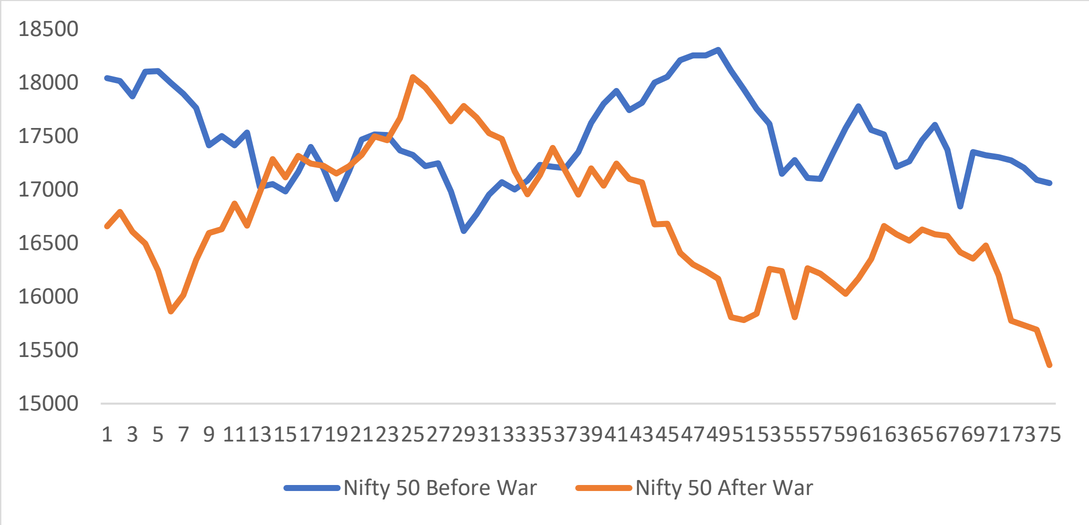

Figure 4. The Trend of Nifty 50 Before and After Russia Ukraine War (75 Trading Days)

The Russia Ukraine war had an adverse impact on equity markets. Nifty 50 had shown a bearish trend after 30 days of start of war as shown in figure 4.

Table 1. Paired T Test of Returns of Nifty 50 (Russia Ukraine War)

Particulars	Mean	N	Std. Deviation	t	df	Sig.
Nifty50BeforeWar	17466.45	75	400.5485			
Nifty50AfterWar	16727.81	75	619.3006	7.507	74	0.000

Table 2. Paired T Test of Returns of ESG 100 (Russia Ukraine War)

Particulars	Mean	N	Std. Deviation	t	df	Sig.
ESG100BeforeWar	3561.273	75	86.09492			
ESG100AfterWar	3336.769	75	145.5886	11.392	74	0.000

The Russia Ukraine war has an adverse impact on equity markets. The Nifty 50 had shown a significant downfall (P=0.000) in first 75 trading after start of war. ESG 100 has also shown a significant negative trend (P=0.000) during the same period.

5. Conclusion

Environment Sustainability and Governance is an investment philosophy that offers benefits of triple bottom line of positive impact on profit, people and planet. The study found that ESG 100 has consistently outperformed Nifty 50 since the launch of ESG 100 in India. ESG has outperformed Nifty 50 in one year, three years, five years, seven years and ten years' time horizon. Though ESG 100 and Nifty 50 had an adverse impact of Russia Ukraine war, ESG 100 has been able to provide better returns in long term inclusive of the downfall experienced during Covid and Russia Ukraine war. It is concluded that ESG investments provide better returns irrespective of the sentiments of the market. ESG investments are recommended for retail investors to outperform the benchmark.

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