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Interrogation of ESG Rating and Benchmarking processes

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Executive Summary

This working paper interrogates the Environmental, Social, and Governance (ESG) rating and benchmarking processes in India, focusing on three major rating agencies: MSCI, Sustainalytics, and CRISIL. Amid the rising significance of ESG considerations globally and within India, the study highlights key inconsistencies in methodologies, metrics, and weightages across agencies, which complicates standardized comparisons and decision-making.

The objective of this paper also resonates with the regulatory efforts by the Securities and Exchange Board of India (SEBI), including its Business Responsibility and Sustainability Reporting (BRSR) guidelines and the recent Master Circular released in the year 2023 for ESG Rating Providers, aimed at harmonizing ESG practices.

The research evaluates ESG ratings for 100 leading Indian companies across 14 sectors, using data from publicly available repositories and agency methodology reports. Despite similarities in overall ESG scores, substantial discrepancies were observed in the interpretation and weighting of individual environmental, social, and governance factors. These differences stem from varied approaches, such as MSCI's industry-relative measures, Sustainalytics'; ESG risk exposure analysis, and CRISIL's risk-adjusted performance metrics. Sector-specific analysis further elaborates that industries face distinct challenges, necessitating tailored ESG evaluation frameworks.

The study highlights significant implications arising from inconsistencies in ESG rating methodologies. These discrepancies can mislead investment decisions and result in inefficient capital allocation, emphasizing the urgent need for standardized frameworks to enhance transparency and bolster investor confidence. For corporations, the adoption of standardized practices would drive more robust ESG reporting and encourage the integration of sustainability into core business strategies, fostering long-term value creation. Additionally, the analysis reveals the importance of developing industry-specific ESG frameworks to effectively address the unique risks and challenges faced by different sectors, ensuring more accurate and relevant evaluations.

The paper concludes that standardized ESG rating frameworks, coupled with sector-specific flexibility, would enhance India's competitiveness in sustainable finance, attract global investments, and foster sustainable economic growth. These findings call for regulatory and policy reforms to mitigate discrepancies and promote consistent and reliable ESG disclosures.

1.Introduction

In the recent years, Environment, Social and Governance (ESG) ratings and benchmarking have gained significant relevance globally, leading to increasing recognition within India as well. These ratings help to assess a company's performance with respect to their practices contributing to sustainable initiatives. They are also driven by increasing focus by the investors on sustainable and responsible investing.

The ratings are generated with the help of ESG scores, a numerical aggregate that measures how well an organization performs in terms of its impact on factors including environment, social responsibility, and governance practices. However, the process of assigning these scores are accompanied with a complex exercise wherein multiple rating agencies use varied methodologies, metrics and measurement parameters across different companies and sectors. This leads to a lack of standardization, and inconsistency creating challenges in making comparisons.

This working paper provides an evidence to this claim by highlighting how the overall composite ESG scores may not vary significantly, but there may be substantial differences in the ways in which the environmental, social and governance factors are defined and weighted individually across rating agencies. With this, we aim to understand the root cause of such inconsistencies, by going in-depth into their methodologies on arriving at a particular ESG Score, and analyzing the degree of variations in interpreting the performance of the top 100 Indian companies (according to market capitalization) with respect to their ESG performance.

The paper employs a sample of three globally recognized rating agencies namely Morgan Stanley Corporate International (MSCI), Sustainalytics, and Credit Rating Information Services of India Limited (CRISIL) to extract the ratings and their corresponding methodologies that describes how they arrive at a particular ESG scores for each of the 100 companies.

It is crucial to interrogate such ESG ratings and benchmarking processes, especially as it responds to the recent publication of a Master Circular by Securities and Exchange Board of India (SEBI), that provides recommendations on standardizing frameworks for third party ESG Rating Providers (ERPs). As we know SEBI has also come up with a regulatory framework that allows the eligible companies to file a Business Responsibility and Sustainability Reporting (BRSR) report to present information on their ESG activities; the current research literature majorly focuses on two related aspects: i) the impact on financial performance of companies based on their ESG ratings ii) sector-wise comparisons for ESG benchmarking.

This exercise provides us with empirical evidence on the need for such a comparative framework. The sector-wise analysis further highlights how different industries face varying ESG challenges and are evaluated differently by the rating agencies.

The study findings highlight the importance and further the discussions on the need to standardize the ESG rating frameworks, particularly within the Indian context. The implications of our findings can facilitate a path for further research areas that can be extended to scientifically assess the composite ESG scores, to develop a more robust benchmarking for sector-wise analysis, and to build greater confidence among investors in furthering their goals towards sustainable and responsible investing.

2. Methods

The paper employs a comparative analysis approach to examine the ESG rating systems in India. The preliminary methods used include:

2.1 Data collection:

To further the analysis, the dataset was populated with the ESG scores of a given list of the top 100 Indian companies, spanning across 14 sectors. The scores were manually collected from the rating agencies like MSCI, Sustainalytics and CRISIL. These agencies have a publicly-available repository of scores providing the latest information and component-wise breakdown of E,S and G factors for each company. They also publish a 'methodology report' discussing the process, weightage, and factors arriving at the composite ESG score.

2.2 Methodology comparison:

To enhance clarity, we have created a table based on relevant criteria to analyze and compare the variations across the agencies' methodologies.

CRITERIA	MSCI	CRISIL	SUSTAINALYTICS
Overall Approach	Industry relative measures determined at company level. Evaluated on 2-7 key issues out of 33 key issues.	Companies have a sector score, indicating how each sector fares relative to other sectors, and company score, indicating the assessment of material parameters relative to peers in the same sector.	Measures companies' performance on key risks and opportunities, indicating the degree to which a company's economic value is at risk driven by the key ESG factors.
Data Sources	Companies' governance structures, policies and targets, quantitative performance metrics, and relevant controversies.	Qualitative and quantitative disclosures via website, exchange filings, annual reports, investor presentations and sustainability reports.	Company events, track records, external data, companies' reporting data and third party research.
Rating Scale	0-10 point scale converted to seven-letter industry-relative scale (AAA to CCC).	0-100 point scale, where 100 is the highest in the ESG performance.	0-100 point scale on Risk Rating score, wherein the lower score implies lower risk.

Environmental Factors	Cover 13 issues across 4 themes- Climate Change, Natural Capital, Pollution and Waste and Environmental Opportunities.	GHG emissions, Energy use, Waste management, Water management, Resource use, green products & biodiversity.	E,S and G Factors 1. Corporate Governance- A foundational element in ESG Risk ratings, indicating that poor Corporate Governance poses material risks for the companies. 2. Material ESG Issues- They form the core of the ESG Ratings. They are focused on a set of topics that require a common set of management initiatives. 3. Idiosyncratic Issues- They are unpredictable issues, and unrelated to a specific subindustry/business model(s) that can be found in that specific industry.
Social Factors	Covers 14 issues across 4 themes- Human Capital, Product Liability, Stakeholder Opposition and Social Opportunities	Employee and worker management, Stakeholder management and product quality & Communities	

Governance Factors	Covers 6 issues across 2 themes- Corporate Governance and Corporate Behavior	Board Composition, independence and functioning, Management track record, Shareholder relations and Disclosure practices	
Weighting	Incorporates 1)Weighted Average Key Issue Score (WAKIS)- Calculated for each company based on weighted average scores of key ESG issues 2)Industry adjusted Company score- Calculated by normalizing the WAKIS relative to the ESG Rating industry peer group.	Environment, Social and Governance factors are assigned different weights wherein their weightage is 35%, 25% and 40%, respectively.	Weightings based on subindustry risk exposure levels.
Update frequency	Annual ratings, weekly monitoring for controversies	Annual updates, with continuous monitoring for significant events	Annual reviews, ongoing monitoring for significant events
Quality Assurance	Multi-layered review process, external advisory panels	Multi-level review process, Data verification checks, Periodic methodology reviews	Internal review processes, company feedback

Table 1: Comparison table across rating agencies

2.3 Rating scale comparison and metrics normalization (wherever required):

To deepen the analysis, we also conducted a comparison of the varied scales used by different rating agencies from their respective methodologies. It is crucial to note that the rating scales for MSCI were further normalized from a 7-point scale to a 5-point scale for a more standardized comparison.

MSCI	Category	Range
CCC	Laggard	0.0-1.429
B		1.429-2.857
BB	Average	2.857-4.286
BBB		4.286-5.174
A		5.714-7.143
AA	Leader	7.143-8.571
AAA		8.571-10

Table 2: MSCI's original ESG rating categories

MSCI (normalized)	Category	Range
CCC,B	Laggard	0.0-2.857
BB	Below average	2.857-4.286
BBB	Average	4.286-5.174
A, AA	Above average	5.714-7.143
AAA	Leader	8.571-10

Table 3: MSCI's ESG rating categories (after normalization)

Range	Category
0-10	Negligible Risk
10-20	Low Risk
20-30	Medium Risk
30-40	High Risk
40+	Severe Risk

Table 4: Sustainalytics' ESG rating categories

Range	Category
0-30	Weak
31-45	Below Average
46-60	Adequate
61-70	Strong
71-100	Leadership

Table 5: CRISIL' ESG rating categories

2.4 Colour-code mapping and data visualization:

To understand the different ways in which our sample of Indian companies are rated by different agencies, we further coded the ESG scores based on a colour-mapping technique using references from the above table. The summarization of agency-wise sectoral distribution are as follows:

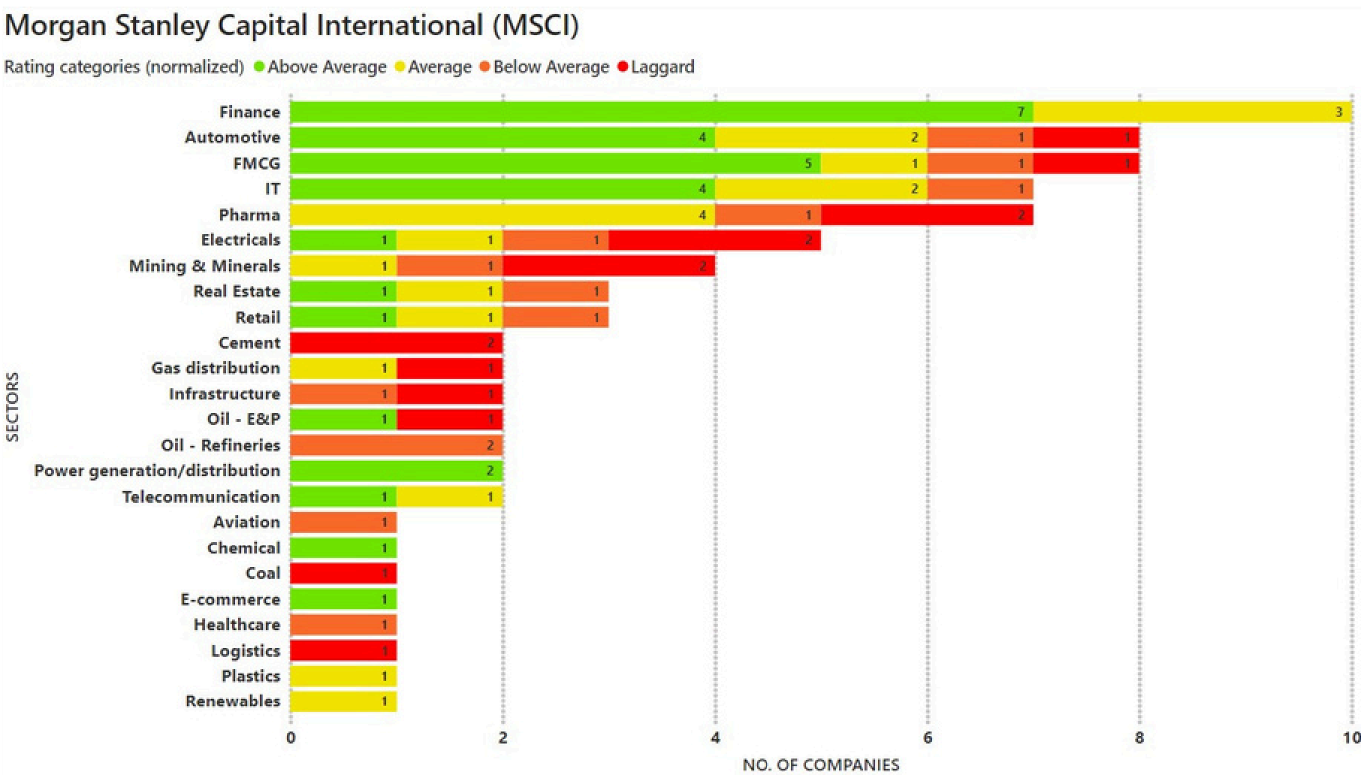

Figure 1: Sector-wise ESG rating distribution by MSCI

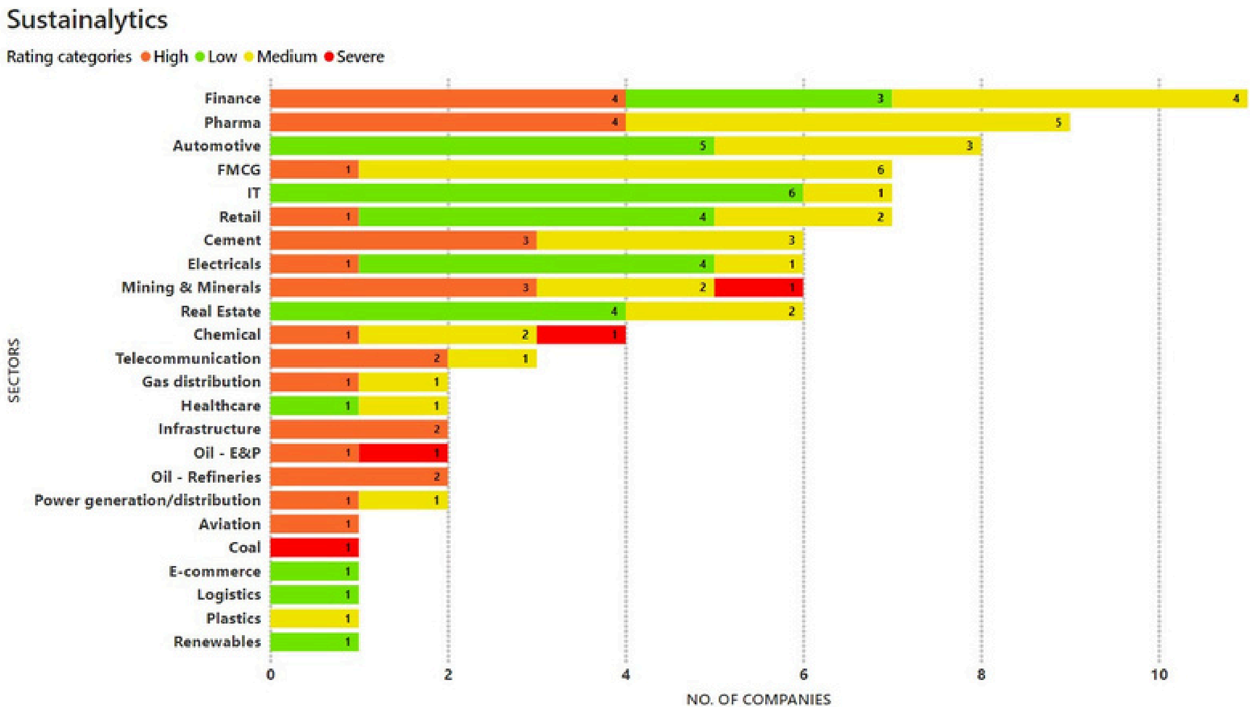

Figure 2: Sector-wise ESG ratings distribution by Sustainalytics

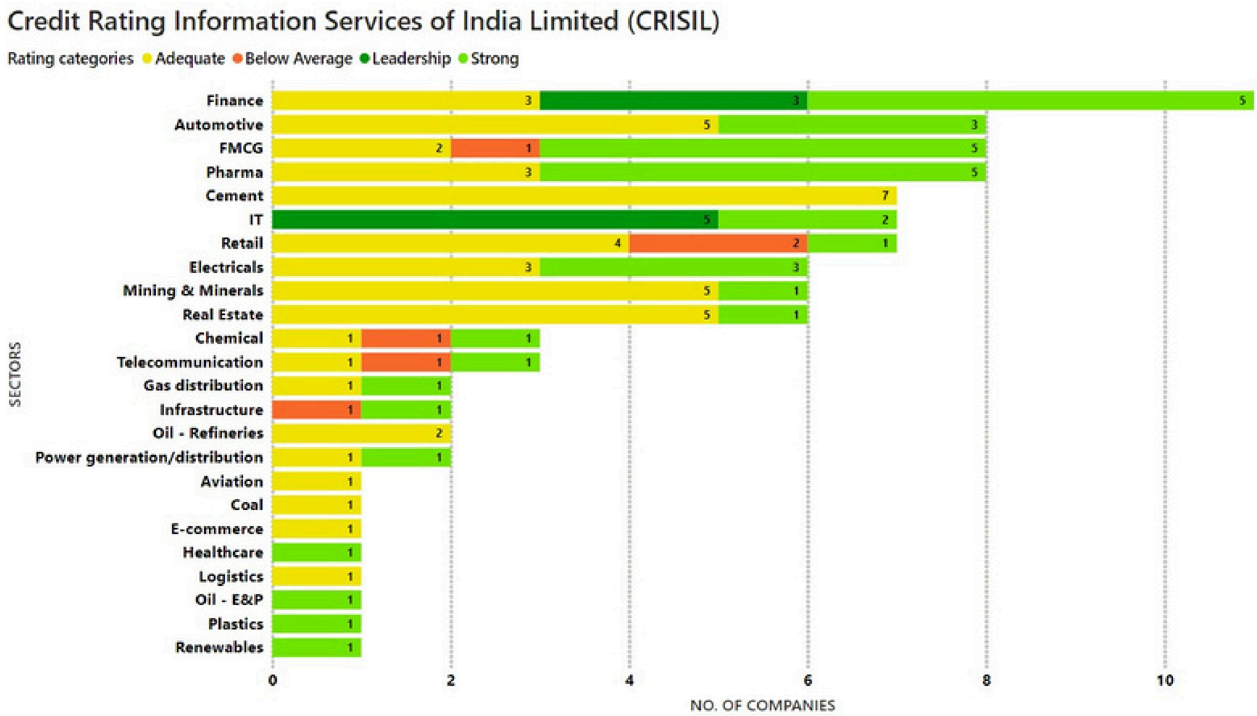

Figure 3: Sector-wise ESG ratings distribution by CRISIL

2.5 Sector-wise analysis:

As a drill-down of how companies within the sectors are rated, we generated sector-wise inference for the 10 major sectors in our sample dataset. The sectors include automotive, cement, finance, IT, telecommunication, FMCG, mining and minerals, pharmaceutical, real estate and infrastructure. The inferences are as follows:

2.5.1 Automotive sector (refer table 6):

From the above graphical representations we see that MSCI ranks around ~57% of their companies in the 'Above Average' category. On further analysis, it is shown that these (Ashok, Eicher, TVS, Mahindra) are companies that fare well on aspects like corporate governance and behavior, toxic emissions, waste management, product safety and quality and labor management. However, there are still rated as 'Laggard' in their use of clean technology.

Sustainalytics rates around 63% of their companies including Bajaj, Eicher, TVS, Ashok Leyland, and Hero Motors in the 'low' ESG Risk. These companies have a low exposure to ESG Ratings while 'average' ratings in their management of such risk. The rest of the companies like Maruti Suzuki, TATA Motors, and Mahindra & Mahindra come under 'High' ESG Risk indicating a variation of patterns. These companies are rated as 'Medium' in their ESG risk, while 'average' rating in the management of such risk. The areas in which these companies are subjected to exposure include- corporate governance, business ethics, carbon-products and services and product governance.

According to CRISIL, around 37% of the companies, including Tata Motors, Hero Motors, and Mahindra & Mahindra, come under the 'Strong' category, indicating better performance as compared to their peers on the key ESG issues, while the remaining ~63% of companies are categorized under the 'Adequate' category. However, a detailed justification of the specific ratings is not available publicly.

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Bajaj Auto	Average	16	54
Eicher motors	Above Average	13.4	58
TVS Motors	Above Average	15.4	59
Maruti Suzuki	Laggard	29.2	60
Ashok Leyland Ltd	Average	13.4	60
Tata Motors	Below Average	26	62
Hero Motor Corporation	Above Average	12.2	64
Mahindra and Mahindra	Above Average	23.9	66

Table 6: Automotive sector's agency-wise ESG ratings distribution

2.5.2 Cement sector (refer table 7):

Companies like UltraTech Cement and Ambuja Cements are the only two companies reported under MSCI. It is reported that their performance is rated as 'Laggard' or 'Average' under issues like carbon emissions, health and safety, corporate governance and behavior, carbon emissions, toxic emissions and waste, and labor management.

According to Sustainalytics, around 50% of the companies have a 'High' ESG Risk exposure, with 'Average' levels of Management for these risks. On the other hand, the rest of the 50% of the companies are categorized under the 'Medium' category indicating 'Medium' exposure to ESG risks along with 'Strong' levels of managing these risks. These companies have also been subjected to controversies such as employee incidents, anti-competitive practices, and business ethics.

On the other hand, CRISIL has rated all their companies under the 'Adequate' category in comparison to similar peers within the same industry. However, a detailed justification of their specific ratings is not available publicly.

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Nuvoco Vista	NA	39.7	46
Ramco Cements	NA	34	52
J.K. Cements	NA	NA	56
ACC	NA	25.7	59
UltraTech Cement	Laggard	31.5	60
Ambuja Cement	Laggard	26.1	60
Dalmia Bharat	NA	29.2	60

Table 7: Cement sector's agency-wise ESG ratings distribution

2.5.3 Finance Sector (refer table 8):

It is observed that MSCI has ranked around 70% of their companies in the 'Above Average' category. Some of the common factors wherein these companies have fared well as compared to their peers include, corporate governance and behavior, human capital development, financing environmental impact, access to finance, privacy of data security, and consumer financial protection. On the other hand, around 30% of the companies have been reported to have a 'Laggard' performance in issues like, corporate governance and behavior, financing environmental impact and consumer financial protection.

According to Sustainalytics, around 27% of the companies are reported to have 'low' risk on their economic value driven by ESG factors. Moreover, they have 'Strong' management levels in dealing with their sector-specific issues. Some of the common material issues include data privacy and cybersecurity, business ethics, product governance, human capital development, financial and investment decision making. On similar factors, around 36% companies have been rated with 'Medium' risk, whereas the rest of the companies have been categorized under 'High' risk, along with 'Average' level of management of such risks. These companies have also been subjected to controversies related to business ethics.

CRISIL, on the other hand has rated around 27% of their companies under 'Leadership' category with respect to their ESG performance, a similar proportion of their companies under 'Adequate' performance, and the rest of the around 45% of their companies under 'Strong' performance. However, a detailed justification of their specific ratings is not available publicly.

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Union Bank	Above Average	31.8	57
IDBI Bank Ltd	NA	32.1	59
SBI	Average	23	60
Bank of Baroda	Average	21.9	61
Canara Bank	Average	31.2	61
IndusInd Bank Ltd	Above Average	30.1	66
Bajaj Finance	Above Average	18.5	67
ICICI Bank	Above Average	22.5	69
Axis Bank	Above Average	19.6	71
HDFC Bank	Above Average	29.8	72
Kotak Mahindra	Above Average	13.7	73

Table 8: Finance sector's agency-wise ESG ratings distribution

2.5.4 IT and telecommunication sectors (refer table 9 and table 10):

Within the IT sector, MSCI has rated one of their IT sector companies under 'Below Average' on account having a 'Laggard' performance in their human capital development. Meanwhile, they have rated around 85% of their IT companies in the 'Average' or 'Above Average category' indicating an 'Average' or 'Leadership' performance in issueslike corporate governance and behavior, privacy and data security, and carbon emissions. Within the telecommunications sector, the same rating agency has classified their company in the 'Average' or 'Above Average' category with a 'Laggard' performance in issues like corporate behavior and labor management. 'Average' or 'Leadership' performance in corporate governance, carbon emissions, privacy and data security.

As per Sustainalytics, all IT companies have been rated as 'Low' or 'Medium' risk on the economic value and 'Average' levels of managing these risks. Some of the key factors common to all the companies include human capital, corporate governance, data privacy and cybersecurity, and business ethics. Within the telecommunication sector, the companies have been rated under 'High' or 'Medium' risk on account of controversies reported, such as customer incidents like data privacy and security, quality, and safety.

Similarly, CRISIL has rated its IT companies under 'Strong' or 'Leadership' categories. Within the IT sector, variations are observed with companies ranging from 'Below Average' to 'Strong' categories.

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Persistent System Ltd	Below Average	19.3	64
LTIMindtree	Above Average	21.5	70
HCL Tech	Above Average	10.9	71
TCS	Average	14.2	72
Tech Mahindra	Above Average	12	72
Wipro	Average	14	74
Infosys	Above Average	12.6	76

Table 9: IT sectors' agency-wise ESG ratings distribution

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Tata Teleservice	NA	33.3	44
Vodafone Idea	Above Average	33.9	47
Bharti Airtel	Average	20.6	63

Table 10: Telecommunication sector's agency-wise ESG ratings distribution

2.5.5 FMCG sector (refer table 11):

In this sector, MSCI has rated around 62.5% of their companies in the 'Above Average' category. These companies are rated as 'Leaders' in factors like chemical, product quality, supply chain, and carbon footprint, while having an 'Average' performance in factors like corporate governance and behavior, packaging materials, water stress, and raw materials sourcing. On the other hand, companies rated as 'Average', 'Below Average' and 'Laggard', have lower performances in factors like corporate behavior, raw material sourcing, and product carbon footprint.

Sustainalytics has rated a majority of its companies at 'Medium' Risk of their ESG Factors in terms of their levels of risk management and management of such risks, with respect to factors like corporate governance, land use and biodiversity, supply chain, environment and social impact of products and services, and product governance.

Meanwhile CRISIL rates their companies from 'Strong' to 'Below Average' categories with respect to their key ESG factors in relation to companies in similar industries.

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Varun Beverages	Average	33.4	43
Jubilant Foodworks	Laggard	22.5	51
Dabur India	Above Average	25.4	59
ITC	Above Average	NA	63
Godrej Consumer	Below Average	28.6	66
Britannia	Above Average	26	66
Tata Consumer Products	Above Average	26.5	67
Hindustan Unilever Ltd	Above Average	21.5	68

Table 11: FMCG's sector agency-wise ESG ratings distribution

2.5.6 Mining and minerals sector (refer table 12):

In this sector, MSCI has rated its companies from 'Laggard' to 'Average' category indicating performances in factors like corporate governance, toxic emissions and waste, biodiversity and land use, carbon emissions, water stress and labor management.

On the other hand, Sustainalytics had ranged its companies from 'Medium' to 'Severe' risk categories, indicating high levels of exposure and average levels of management in key factors like carbon emissions, effluents and waste management, community relations, and occupational health and safety.

Similarly, CRISIL has also rated its companies within the 'Adequate' category, with TATA Steel in a relatively 'Strong' position. However, the justification of their ratings hasn't been disclosed.

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Jindal Steel and Power Ltd.	Laggard	47.5	47
Vedanta	Below Average	37.6	52
Hindustan Zinc Limited	NA	29	56
Hindalco Industries Limited	Average	30	58
Steel Authority of India Ltd.	NA	36	60
Tata steel	Laggard	29.2	62

Table 12: Mining and minerals sectors' agency-wise ESG ratings distribution

2.5.7 Pharmaceuticals sector (refer table 13):

Within this sector, MSCI has rated its companies from 'Laagard' to 'Average' categories indicating their performance in factors like corporate governance and behavior, human capital development, carbon emissions, product safety and quality, access to healthcare and toxic emissions waste.

Meanwhile, Sustainalytics has provided ratings within a similar range for such companies from 'Medium' to 'High' risk, indicating 'Medium' levels of exposure and 'Average' levels of management in factors like product and corporate governance, business ethics, and access to basic services.

CRISIL, on the other hand has rated their companies from 'Adequate' to 'Strong' categories on their overall ESG performance, as compared to other companies within the same sector.

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Sun Pharma	Laggard	31.5	54
Zydus Lifesciences Limited	NA	29.1	54
Divi's Laboratories Limited	Laggard	32.8	56
Pidilite	Below Average	29.9	61
Torrent Pharma	Average	36.4	61
Abbott India	Average	22.2	65
Dr Reddys Labs	Average	23.6	66
Cipla	Average	25.6	68
Mankind Pharma	NA	33.1	NA

Table 13: Pharmaceutical sector's agency wise ESG ratings distribution'

2.5.8 Real estate and infrastructure sectors (refer table 14 and table 15):

In the Real Estate sector, MSCI has rated its companies from ‘Laggard’ to ‘Below Average’ indicating their performance in factors like corporate governance and behavior, labor management, biodiversity and landscape, and opportunities in clean technology. Within the Infrastructure sector, the companies are rated from ‘Average’ to ‘Above Average’ categories indicating ‘Average’ performance in factors like corporate behavior, opportunities in green building, health and safety, along with ‘Leadership’ performance in factors like product safety and quality.

Meanwhile, Sustainalytics has rated their companies within a ‘High’ Risk category indicating ‘Medium’ levels of exposure and ‘Average’ levels of management in factors like land use and biodiversity, human capital, business ethics, and carbon emissions. These companies have also been reported to have high levels of controversies in issues related to business ethics and operational incidents impacting biodiversity. Real estate companies have received a relatively better ranking having a ‘Low’ to ‘Medium’ risk, indicating ‘Medium’ levels of exposure and ‘Strong’ levels of management in factors like corporate and product governance, business ethics, ESG integration in financial investments, with very low levels in controversial cases.

CRISIL, on the other hand, has rated Adani Enterprise under ‘Below Average’ category, while it has rated Larsen and Toubro (L&T) under a ‘Strong’ performance category. According to one of their rationale reports, it is noted that L&T has assured a commitment to water and carbon neutrality by 2035 and 2040 respectively, along with a strong portfolio in green businesses including solar, water, green hydrogen and some other renewable energy projects. Within their governance structure, they have a strong corporate governance system, along with a dedicated investor grievance redressal system and extensive disclosures (CRISIL Ratings, 2024).

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Adani Enterprise	Laggard	32.9	44
Larsen and Toubro	Below Average	32.7	65

Table 14: Real Estate sector’s agency-wise ESG ratings distribution

Company Name	MSCI (Normalized)	Sustainalytics	CRISIL
Macrotech Developers	Above Average	13.6	47
Prestige Estates	NA	20.5	49
Oberoi Realty	NA	17.4	53
Phoenix Mills	NA	19	54
Godrej Properties	Below Average	20.5	59
DLF	Average	16.9	61

Table 15: Infrastructure sector’s agency-wise ESG ratings distribution

3. Discussion

The variations across different rating agencies presented in this paper has demonstrated how the composite ESG score may not significantly vary amongst each other. But they may significantly vary across environmental, social and governance factors individually. This is because of the different weightage, interpretations and methodologies employed by the rating agencies on determining such factors.

Hence, it is evident that our findings impact the current interrogations on ESG ratings and benchmarking, due to the lack of standardization in ESG reporting and disclosure practices. Given the diversity of various approaches, it also well aligns with the motivation behind SEBI's master circular on standardized practices by ESG Rating Providers (ERPs). Our findings may also have an impact on the other aspects such as

i) Investment decisions and capital allocation: For instance, the inconsistency may lead to misinformed investment decisions, wherein capital might be allocated to companies based on the non-comparable data. Standardization would ensure that the investors have access to reliable and comparable information, leading better decision making that aligns with sustainable and responsible investment practices. This could also enhance investor confidence in ESG related investments, potentially leading to increased capital flows into companies that genuinely prioritize sustainability.

ii) Implications for corporate strategy: For companies, the push towards a standardized ESG rating system also means that they will need to align their operations with more transparent and consistent ESG criteria. Further, they would need to adopt more rigorous and comprehensive reporting practices, ensuring that their ESG related initiatives are not only well documented but effectively communicated among its stakeholders. This shift could drive a more strategic integration of ESG factors into core business operations, promoting long-term sustainability over short-term gains.

iii) Regulatory and policy implications: The findings also suggest that a growing role for regulatory bodies in shaping the future of ESG reporting and ratings system in India. The Securities and Exchange Board of India (SEBI) has already made strides by introducing the Business Responsibility and Sustainability Report (BRSR) guidelines towards a greater regulatory oversight. However, these are still evolving, and not uniformly adopted across all sectors. If uniformly implemented, this trend could lead to more robust policies that mandate ESG disclosures and ratings, also reducing the risk of greenwashing and ensuring that companies' sustainability claims are credible and verifiable.

iv) Sector-specific impacts: The sector-wise variations in ESG ratings identified in the report highlight the need for industry-specific approaches to ESG assessment. Different sectors face unique challenges and risks related to ESG factors, and hence, a one-size-fits-all rating approach may not be effective. Standardized yet flexible frameworks that allow for sector specific adaptations could ensure that ESG ratings more accurately reflect the realities of different industries, thereby improving the relevance and applicability of these ratings.

Overall, by aligning closely with a standardized rating and benchmarking process could enhance India's global competitiveness in the realm of sustainable finance. Indian companies can increase their potential in global competitiveness by attracting greater investments and recognitions among global investors who are increasingly prioritizing ESG considerations. This could facilitate enhancing their visibility and attractiveness in the current market.

4. Conclusion

This report has examined the complexities and inconsistencies within ESG Ratings and Benchmarking processes in India, focusing on the varied methodologies employed by three prominent rating agencies- MSCI, Sustainalytics and CRISIL. The analysis revealed that while the overall ESG Scores assigned by these agencies might be similar, significant discrepancies exist in how individual environmental, social, and governance factors are weighed and interpreted. These variations may pose challenges for investors and companies alike, particularly in the absence of standardized and transparent ESG frameworks.

The findings of this report are significant as they underscore the need for a standardized framework system in India. Without uniformity, investors may make misinformed decisions based on non-comparable data. For companies, this may lead to inconsistent reporting practices, undermining their efforts to effectively communicate their ESG initiatives to stakeholders. Moreover, the sector-wise analysis highlights the necessity for industry-specific adaptations to ESG assessments, ensuring that ratings accurately reflect the unique challenges and risks faced by different industries.

The conclusions drawn from this report are crucial for several reasons. Firstly, to semphasize the importance of regulatory interventions, such as those initiated by SEBI, in fostering greater transparency and consistency among third-party ESG Ratings Providers (ERPs). Secondly, they highlight the potential for enhancing investor confidence, attracting greater capital flows, and promoting long-term sustainability.

Finally, aligning at the global level can also boost competitiveness in sustainable finance among the Indian companies to better attract international investments and recognition in the global market. By addressing these issues, India can move towards a more robust and reliable ESG ecosystem, fostering sustainable economic growth and contributing to global sustainability goals.

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