

ESG::readings

Series of analyses from the Indian financial and corporate sectors

CRISIL MI&A Research, leveraging its strong sectoral research capability, rich databases, track record of scoring Indian companies, and global and domestic expertise, brings to you sharp insights on various facets of environmental, social and governance (ESG) in India.

How India's nine ESG mutual funds stack up

In the first report of this series, we publish a first-of-its-kind ESG scoring of the nine active ESG mutual funds in India, based on CRISIL's proprietary 2022 sustainability scores of companies that form a substantial part of their portfolios.

We assess how closely the funds are fulfilling their mandates — a useful baseline for future, ongoing evaluations.

CRISIL ESG scores for India's ESG funds*

Fund name	E score	S score	G score	ESG score [#]	% covered by CRISIL	Category
Mirae Asset Nifty 100 ESG Sector Leaders ETF	62	61	75	67	100.0	Strong
Quantum India ESG Equity Fund - Regular Plan - Growth	60	59	75	66	95.0	Strong
Invesco India ESG Equity Fund - Regular Plan - Growth	58	58	74	64	99.6	Strong
Axis ESG Equity Fund - Regular Plan - Growth	57	57	74	64	69.0	Strong
Aditya Birla Sun Life ESG Fund - Regular Plan - Growth	57	57	73	63	100.0	Strong
Kotak ESG Opportunities Fund - Regular Plan - Growth	57	59	72	63	100.0	Strong
ICICI Prudential ESG Fund - Regular Plan - Growth	58	57	72	63	83.0	Strong
Quant ESG Equity Fund - Regular Plan - Growth	55	60	71	63	88.0	Strong
SBI Magnum Equity ESG Fund - Regular Plan - IDCW	57	56	70	62	95.0	Strong
Average	58	58	73	64		

*based on CRISIL's 2022 ESG scores for the portfolio companies/constituent stocks; [#]based on CRISIL's weightages given to E (35%), S (25%), and G (40%), and weighted based on their percentage to NAV

Note: 0-30 - Weak, 31-45 - Below average, 46-60 - Adequate, 61-70 - Strong, 71-100 - Leadership

Source: CRISIL MI&A Research

This note has been revised to adjust for companies not covered by CRISIL, which include domestic companies not under our ESG coverage as well as global companies.

The immediate context

The Securities and Exchange Board of India, in its March 2023 Board meeting, announced a set of regulatory requirements on ESG disclosures, ratings, and investing. Among other measures, it mandated that ESG schemes must invest at least 65% of assets under management in listed entities, where assurance on Business Responsibility and Sustainability Reporting (BRSR) Core¹ is undertaken.

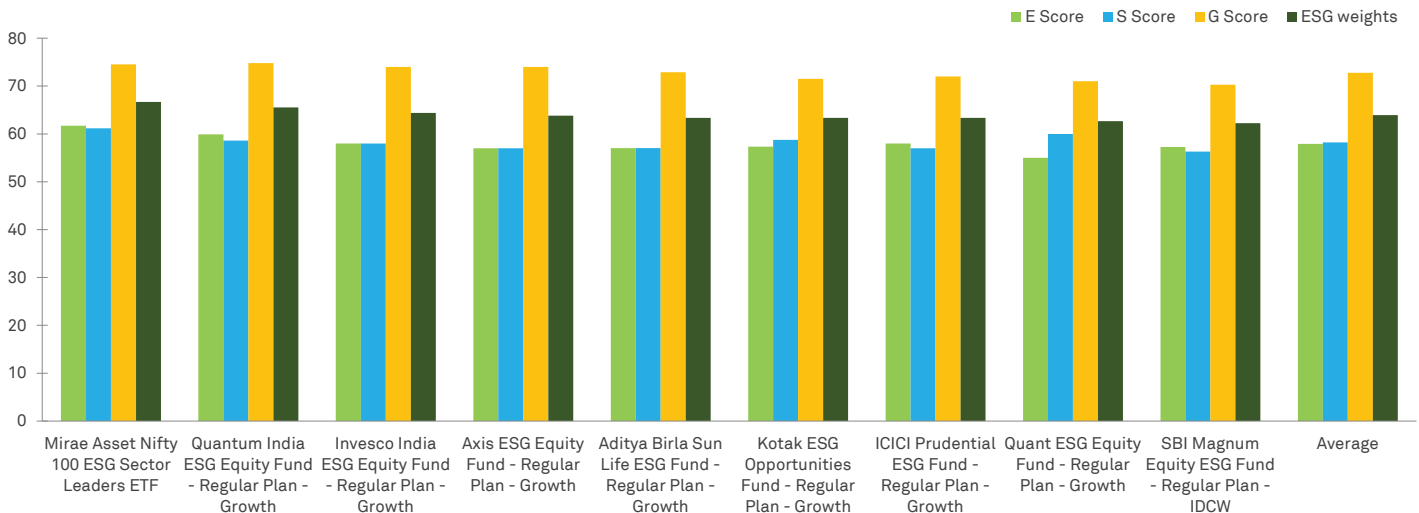
Against this backdrop, CRISIL MI&A Research — which has been proactively scoring companies on ESG parameters since 2021 — has analysed the nine active ESG funds in India on their ESG-related performance (see table above).

The analysis, based on CRISIL’s 2022 ESG scoring of the constituent companies in the portfolios of these funds, has also helped to granularly bring out the extent to which these stocks were aligned with ESG principles.

Key takeaways

- Mirae Asset Mutual Fund has the best overall ESG score of 67 among the nine funds considered
- The funds’ average ESG score is 64 with four of the nine funds above that level
- The average G score of 73 is significantly higher than the average E and S scores of 58 each. This indicates ESG fund managers are still paying less attention to E and S considerations while picking stocks², compared with G

ESG performance fund-wise



Source: CRISIL MI&A Research

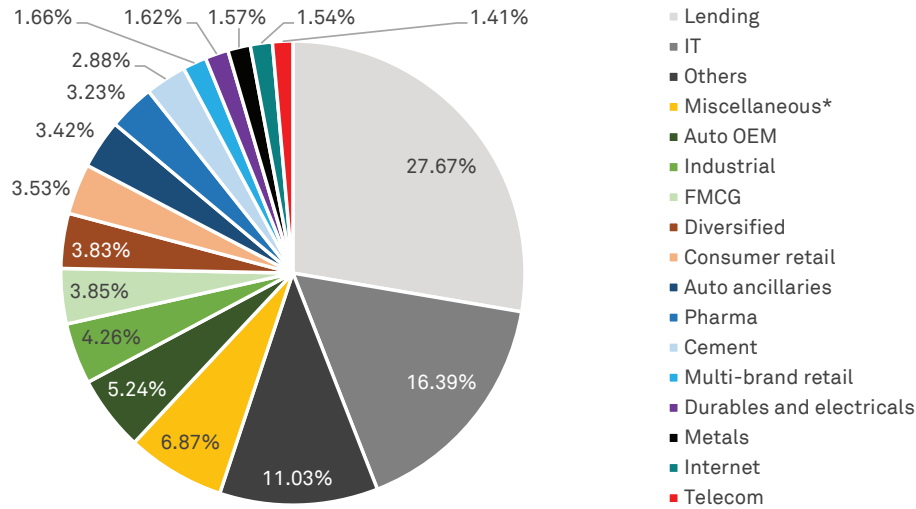
¹Core BRSR is a set of limited key performance indicators for which listed entities will need to obtain reasonable assurance/evaluation. It will apply to the top 150 entities by market cap from this fiscal and be extended to the top 1000 by fiscal 2027.

²Companies not covered under CRISIL ESG scoring coverage comprised only 10% of the total net asset value (NAV) of all the funds combined, including companies with headquarters outside India.

Sectoral exposure of the ESG funds

The nine ESG funds have highest exposure to the lending and information technology (IT) sectors. These two sectors comprise ~44.1% of the funds' holdings.

Sectoral composition of the ESG funds



*Comprising sectors with less than 1% share

The 10 best and worst ESG sectors based on CRISIL's 2022 ESG scores

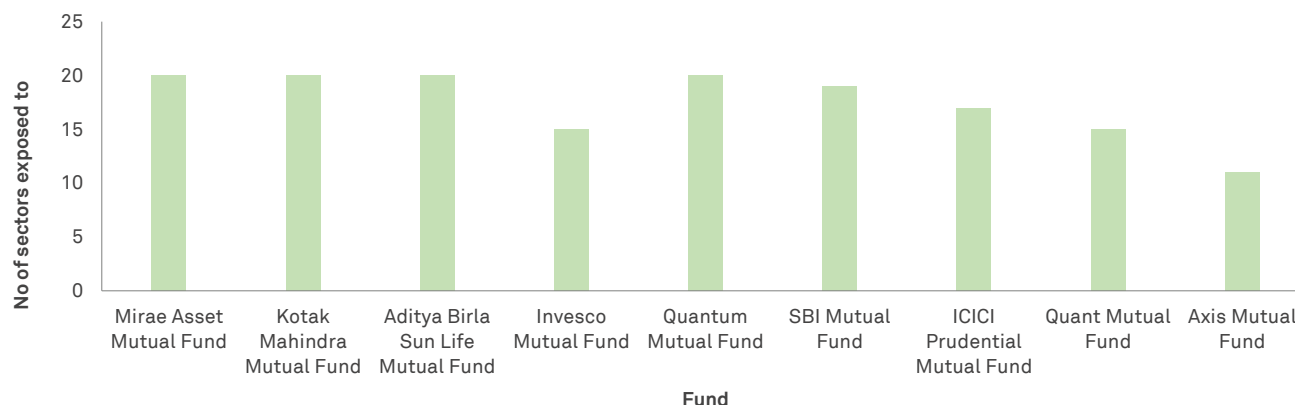
Sector (best)	E score	S score	G score	ESG score	Sector (worst)	E score	S score	G score	ESG score
IT	57	57	74	64	Transport infrastructure	22	38	55	39
Diversified	55	61	72	63	Agri commodities	34	39	45	40
Lending	61	58	65	62	InvITs	29	30	59	41
Auto OEM	54	52	71	60	REITs	47	33	50	44
Holding companies	59	57	60	59	Ship building	32	43	59	45
Paints	48	54	72	59	Construction EPC	32	44	60	46
Staffing	47	50	72	58	Mining	33	53	55	47
Power - renewable	59	52	61	58	Chemicals	32	46	64	48
Pharma	43	57	69	57	Power - thermal	34	46	62	48
Sugar	43	47	76	57	Food retail	33	41	67	49

Note: The score for each sector is an average of the companies' scores in that sector, assigned by CRISIL in 2022
Source: CRISIL MI&A Research

Of the top 10 best ESG performing sectors based on CRISIL's scores, the nine ESG funds have substantial holdings in just three sectors — IT, lending, and auto OEM. Also, close to 58% of these funds' holdings are in the top 10 ESG-compliant sectors, while ~9% are in the bottom 10.

Diversity in sectoral exposure

Based on CRISIL's coverage of companies in these funds, we found that four of the nine funds have exposure to 20 sectors. While the remaining have exposure to less than 20, Axis Mutual Fund has the least diverse holdings, with exposure in only 11 sectors.



Source: CRISIL MI&A Research

Highest and lowest ESG scorers and their average weight and occurrence in the ESG funds

Next, we looked at the occurrence of companies with the highest and lowest ESG scores in these funds, and their weights in their portfolios.

The top 11 ESG compliant companies belonging to the 'Leadership' category occurred 59 times in these funds' holdings, each being held at least by five (out of nine) ESG funds, on average. These 11 companies comprised 4.28% of the funds' holdings, on average.

We also found eight (out of 159) of the lowest ESG scoring companies (i.e., the 'Below average' category) occurred 10 times in these funds' holdings (aggregated across the funds), with an average proportion of 0.81% in their holdings.

Occurrence and weights of ESG leaders and laggards in the ESG funds*

Company name	Category	Occurrences	Average holding
Marico Ltd	Leadership	2	1.80%
Axis Bank Ltd	Leadership	6	4.13%
Kansai Nerolac Paints Ltd	Leadership	1	0.71%
HCL Technologies Ltd	Leadership	4	2.38%
HDFC Ltd	Leadership	7	4.75%
HDFC Bank Ltd	Leadership	8	6.05%
Tata Consultancy Services Ltd	Leadership	7	5.47%
Tech Mahindra Ltd	Leadership	4	1.40%
Kotak Mahindra Bank Ltd	Leadership	7	3.04%
Wipro Ltd	Leadership	5	2.87%
Infosys Ltd	Leadership	8	6.63%
Company name	Category	Occurrences	Average holding
Clean Science & Technology Ltd	Below average	1	0.06%
Rolex Rings Ltd	Below average	2	0.96%
Go Fashion (India) Ltd	Below average	1	1.36%
G R Infraproject Ltd	Below average	1	1.65%
Vinati Organics Ltd	Below average	2	0.81%
Dhanuka Agritech Ltd	Below average	1	0.03%
One 97 Communications Ltd	Below average	1	0.36%
Ratnamani Metals & Tubes Ltd	Below average	1	1.09%

*as on May 4, 2023

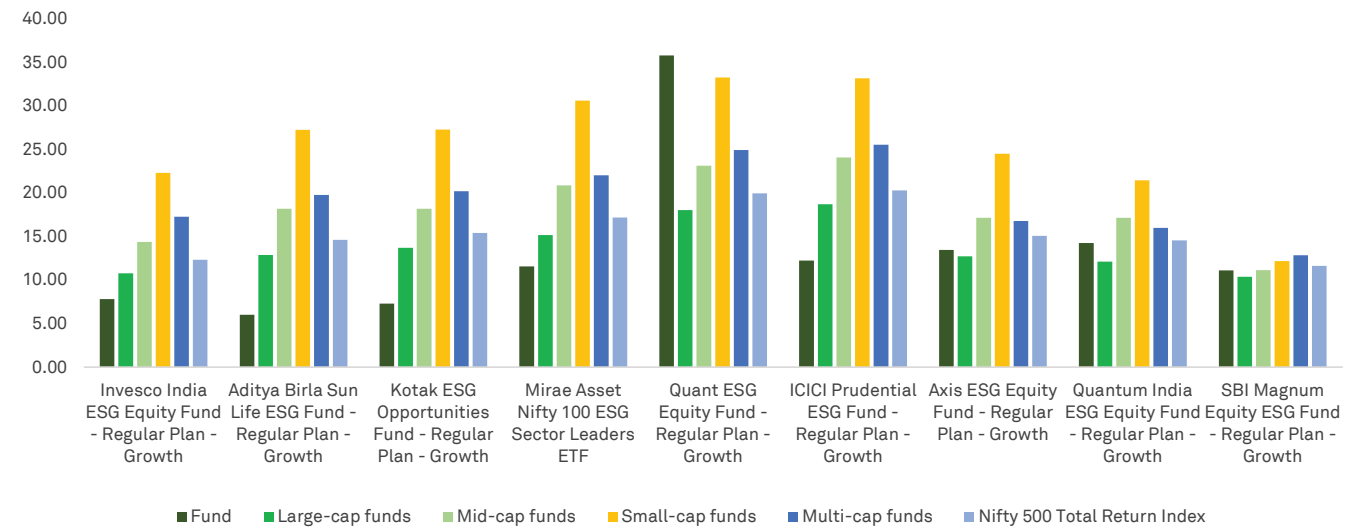
Source: CRISIL MI&A Research

Average total return of ESG funds compared with other non-ESG fund categories and Nifty 500

Average returns*



Returns of ESG funds vs non-ESG funds and Nifty 500



*Average returns calculated over inception date of ESG funds to April 30, 2023; performance of non-ESG funds is mapped to the individual inception date of the ESG funds
Notes: 1. NAV series for Mirae Asset Nifty 100 ESG Sector Leaders ETF is available from November 18, 2020; 2. Effective date for change to ESG for SBI Magnum Equity ESG Fund is May 16, 2018; 3. Returns are annualised
Source: CRISIL MI&A Research

ESG funds have tended to underperform against most of their non-ESG fund peers.

This could be because of the following reasons:

- Most ESG funds were launched post 2019, and therefore, do not have an extensive track record
- Since ESG funds typically have a large portion of their holdings in large-cap companies, their performance is on a par with large-cap funds, which, in turn, are underperforming small- and mid-cap funds
- They do not invest in high returns-generating small- and mid-cap companies, possibly because ESG data on such companies are scarce. We hope the BRSR will resolve some of the issues around data availability
- Retail investors who truly want their money to make a positive impact through ESG funds are potentially not seeing many ESG-aligned constituents. As observed in the overall ESG scores of the funds analysed, none of them fell in the 'Leadership' category. Some even invested in highly polluting sectors or in companies with poor ESG scores

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