



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A STUDY ON IMPACT OF ESG SCORES ON FINANCIAL PERFORMANCE OF FINANCIAL INSTITUTIONS

Ms. S. Jeya Preethi, Assistant professor, School of Management, Sri Krishna College of Technology, Coimbatore.

M. Jagadeesh, Final Year Student, School of Management, Sri Krishna College of Technology, Coimbatore.

ABSTRACT

ESG (Environmental, Social, and Governance) factors have been widely recognized as key indicators of corporate sustainability. This study looks at the relationship between a firm's financial performance and its ESG score, drawing insights from stakeholder theory. The sample includes 41 Indian financial institutions, with data for the fiscal years 2022 and 2023 sourced from CRISIL. To analyze the impact of ESG scores on return on equity (ROE), return on assets (ROA), and market performance, the study employs linear regression and correlation analysis. The findings align with stakeholder theory, indicating a positive correlation between a firm's financial performance and its ESG score. To further extend the analysis, the study incorporates beta value calculations for the fiscal years 2022–2023 to assess market volatility and risk exposure. Additionally, a time series analysis is conducted to evaluate trends and patterns in ESG scores and financial performance over time. This research contributes to the restricted writing on Indian financial firms by investigating the significance of ESG within the monetary segment and highlighting its part in driving productivity and sustainable business practices.

Keywords: ESG (environmental, social and governance), Indian Financial Institutions, Sustainability, Corporate Governance, Risk Analysis, time series, ESG disclosure.

1.Introduction

Financial institutions are vital to the economy, facilitating capital flow and offering essential services such as lending, saving, and investment. These entities, which encompass commercial banks, securities firms, investment companies, and credit unions, address the diverse financial needs of individuals, businesses, and governments. Over the centuries, financial institutions have evolved from ancient moneylending practices to the establishment of central banks, forming the foundation of today's interconnected global financial systems. Recent technological advancements, including digital banking and fintech innovations, have revolutionized access to financial services, enhancing convenience and inclusivity while also introducing new regulatory and security challenges.

In later years, the centrality of Environmental, Social, and Governance (ESG) . criteria has grown substantially within the corporate and investment sectors. ESG scores, which assess a company's commitment to sustainable and ethical practices, have become crucial for investors and stakeholders evaluating long-term viability. Financial institutions are increasingly urged to incorporate ESG standards into their operations, driven by regulatory requirements and the understanding that strong ESG performance can lead to better financial results. In India, the Securities & Trade Board of India (SEBI) has played a key part in advancing ESG practices by mandating disclosures from leading companies and encouraging sustainable investment strategies. As awareness of sustainability issues rises, both consumers and investors are prioritizing companies that demonstrate a commitment to ESG principles, further accelerating the adoption of these practices in the corporate world.

2.Literature review

Deepali Kalia, Divya Aggarwal, 2022 Analyzes the influence of ESG score on cash related execution of healthcare companies that focuses to look at the affect of include up to and each individual component of normal, social and organization score (ESG) on cash related execution (FP) of healthcare companies. The think around have proposals for both pros and policymakers. The makers propose the specific setups in which the relationship between ESG works out and firm execution will be negative or insignificant. Karishma K Dalal, Nimit Thaker 2019 ESG and corporate cash related execution:A board consider of Indian companies. The centrality of viable and tried and true wander techniques has basically risen due to the extending cognizance concerning normal consistent quality and monetary progression of countries.

3.Problem statement

This study highlights the increasing importance of ESG factors in the financial sector, driven by regulatory pressure, social expectations, and shareholder activism. Recognizing a gap in existing research, the study focuses on financial institutions to examine the impact of ESG scores on financial performance. By analyzing this relationship, the research provides valuable insights for stakeholders on ESG's role in profitability and

long-term sustainability. The findings emphasize the necessity for financial firms to integrate ESG considerations for competitive and regulatory advantages.

Objectives of the study

- To analyse the relationship between ESG scores and various performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q.
- To identify the risk in investing.
- To forecast the future net profit of selected financial institutions

Scope of the study

This study examines the impact of ESG scores on the financial performance of financial institutions using a time series approach. It analyzes the relationship between ESG scores and key financial metrics such as ROA, ROE, and Tobin's Q over time to assess trends in profitability, shareholder returns, and market valuation. Additionally, it evaluates how ESG factors influence risk profiles dynamically, determining whether they mitigate or introduce financial, operational, and market risks.

Significance of the study

This study examines the impact of ESG practices on Indian financial institutions, aligning with the growing focus on sustainability. With global and domestic stakeholders demanding transparency, understanding the link between ESG scores and monetary success is crucial. The findings offer insights for institutions to balance ESG compliance with profitability in resource allocation, risk management, and operations. Additionally, this research contributes to sustainable finance literature, addressing a knowledge gap in the Indian market and serving as a reference for stakeholders integrating financial and ethical responsibilities.

Research methodology

The study undertaken is analytical in nature. The study uses a quantitative approach to understand the affect of ESG scores on return on resource (ROA) return on value (ROE) and showcase execution Tobin's Q). This study examines 41 financial institutions listed on the NSE in 2022 and 2023, selected from an starting set of 67 companies from the Nifty 500 record. However, 26 companies were excluded due to lost information and ESG score accessibility. CRISIL's ESG scores were utilized. The study utilizes purposive sampling to ensure a comprehensive and reliable dataset for analyzing the relationship between ESG scores and budgetary execution. As this study comprises of 41 financial institutions and their ESG scores, only six institutions were taken for the study. Three institutions which has highest ESG score and the rest three which has least ESG score were taken to analyse the affect of ESG scores with their financial performance. Information utilized for the consider are from financial a long time closing both 2022 and 2023, which can permit one to analyze later ESG patterns and their suggestions for the budgetary execution of Indian financial institutions.

Analysis and results

Correlation:

H0: There is no significant relationship between ESG scores and financial performance indicators (ROA, ROE, and Tobin’s Q).

H1: There is a significant relationship between ESG scores and financial performance indicators (ROA, ROE, and Tobin’s Q).

		ESG	ROE	ROA	Tobinsq
ESG	Pearson Correlation	1	.705	.594	.629
	Sig. (2-tailed)		.848	.924	.131
	N		7	7	7
ROE	Pearson Correlation		1	.321	.214
	Sig. (2-tailed)			.482	.645
	N			7	7
ROA	Pearson Correlation			1	.679
	Sig. (2-tailed)				.094
	N				7

The Pearson correlation matrix shows a strong positive connection between ESG scores and ROE (0.7058) and a moderate correlation with ROA (0.5946), indicating that higher ESG performance is associated with better financial efficiency. However, ESG has a weak correlation with Tobin’s Q (0.1421), suggesting a limited impact on market valuation. Overall, the correlations suggest positive connection between ESG and money related performance indicators, the lack of significance due to the small sample size limits the reliability of these findings. Therefore, the null hypothesis is accepted.

Regression

H0: ESG scores have no significant impact on ROE, ROA, and Tobin's Q.

H1: ESG scores have a significant impact on at least one of ROE, ROA, or Tobin's Q.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.820 ^a	.672	.344	1.391

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.908	3	3.969	2.051	.285 ^b
	Residual	5.807	3	1.936		
	Total	17.714	6			

a. Dependent Variable: ESG

b. Predictors: (Constant), Tobinsq, ROE, ROA

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std.Error	Beta		
1	(constant)	2.103	1.472		1.429	.248
	ROE	.071	.278	.089	.254	.816
	ROA	.586	.369	.736	1.586	.211
	Tobinsq	.882	.358	1.109	2.465	.090

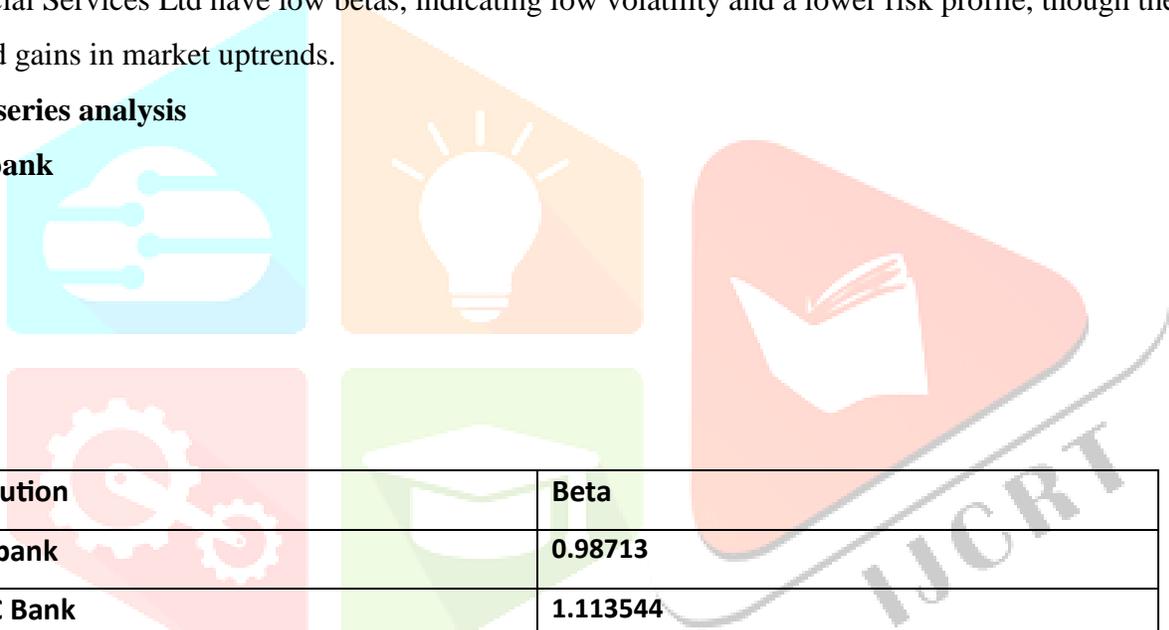
The regression analysis shows a strong correlation ($R = 0.820$), but the model is not statistically significant ($p = 0.285$). While 67.2% of the variation in ESG scores is explained by ROE, ROA and Tobin's q ($R^2 = 0.672$), the adjusted R^2 (0.344) suggests weaker explanatory power. Among the predictors, Tobin's Q has the strongest association with ESG ($\beta = 0.736$, $p = 0.090$), but it is still not significant. Since all p -values are above 0.05, the null hypothesis (H_0) is not rejected, meaning ESG scores do not significantly impact ROE, ROA, or Tobin's Q in this sample. The small sample size may affect these results.

Beta

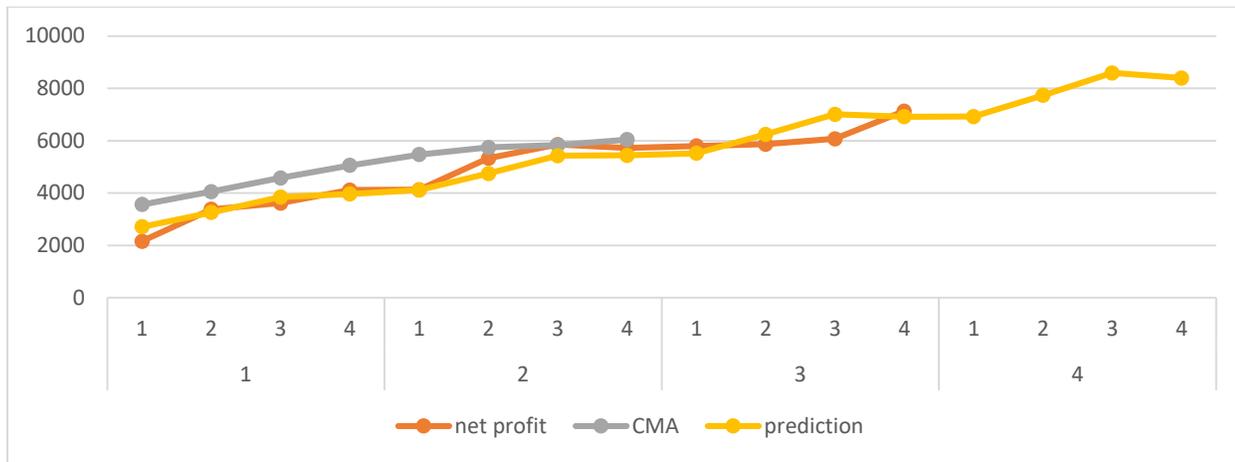
Axis Bank and ICICI Bank have betas close to 1, indicating moderate risk and a tendency to move in line with the market. HDFC Bank, with a beta greater than 1, is more volatile and carries higher risk. Infibeam Avenues Ltd is slightly above 1, suggesting moderately higher volatility. Indostar Capital Finance Ltd and PTC India Financial Services Ltd have low betas, indicating low volatility and a lower risk profile, though they may offer limited gains in market uptrends.

Time series analysis

Axis bank

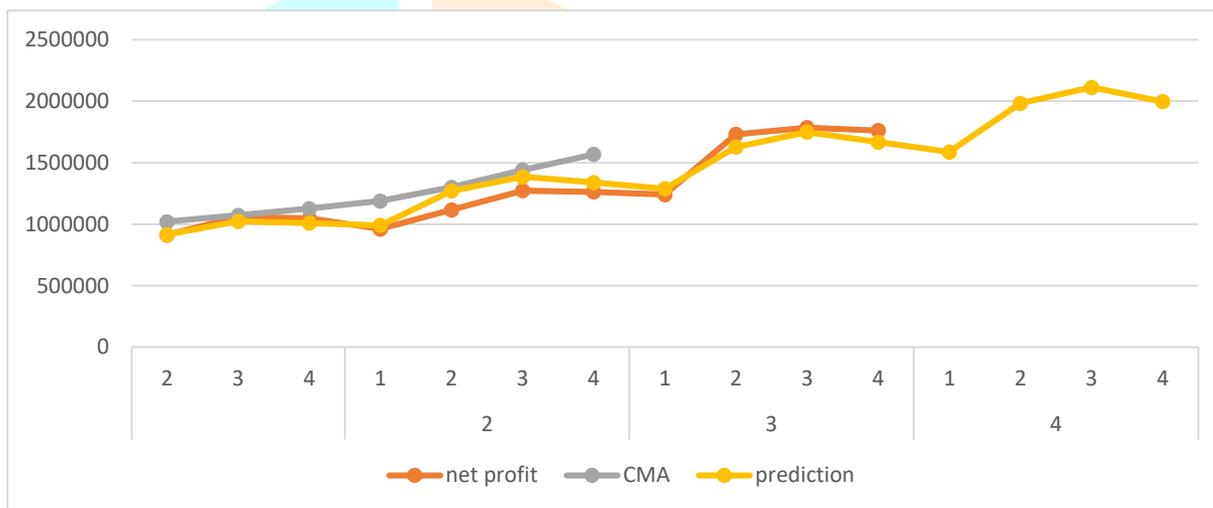


Institution	Beta
Axis bank	0.98713
HDFC Bank	1.113544
ICICI Bank	0.992557
Indostar capital finance Ltd	0.071901
Infibeam avenues	1.071015
PTC India Financial services Ltd	0.225495



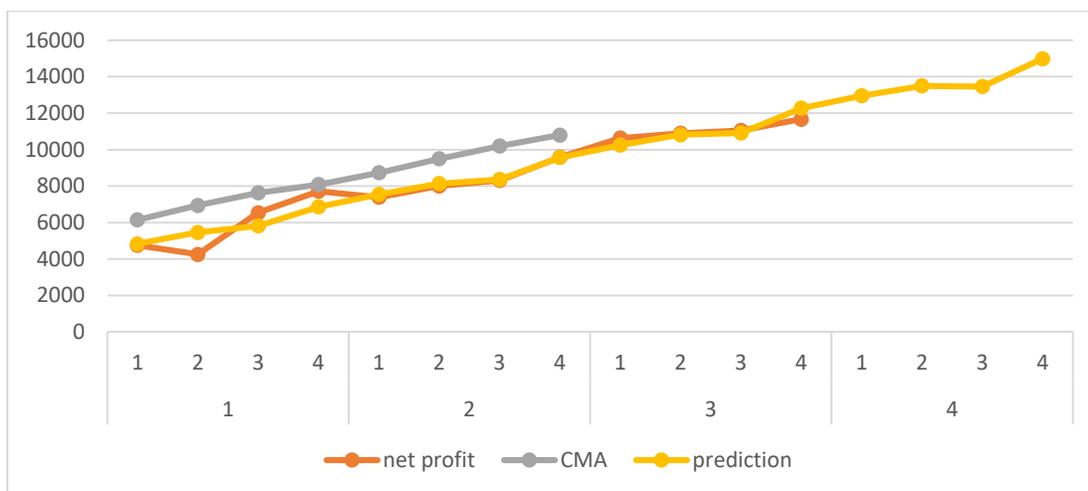
Axis bank has shown consistent financial growth, with seasonal patterns indicating Q3 as the most profitable and Q1 the least. Projections for Year 4 suggest continued growth, with profits expected to peak at 8588.06 in Q3.

HDFC bank



HDFC bank has shown steady profit growth, with Q3 being the most profitable and Q1 the least. Year 4 projections align with past trends, showing continued growth, though external factors may influence outcomes.

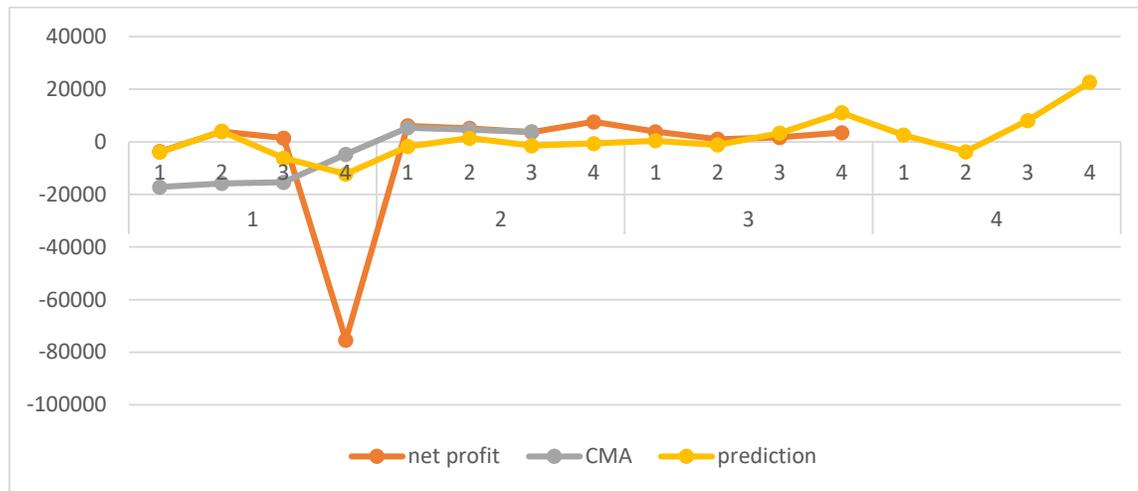
ICICI Bank



ICICI bank shows consistent net profit growth over three years, with actual figures closely matching predictions,

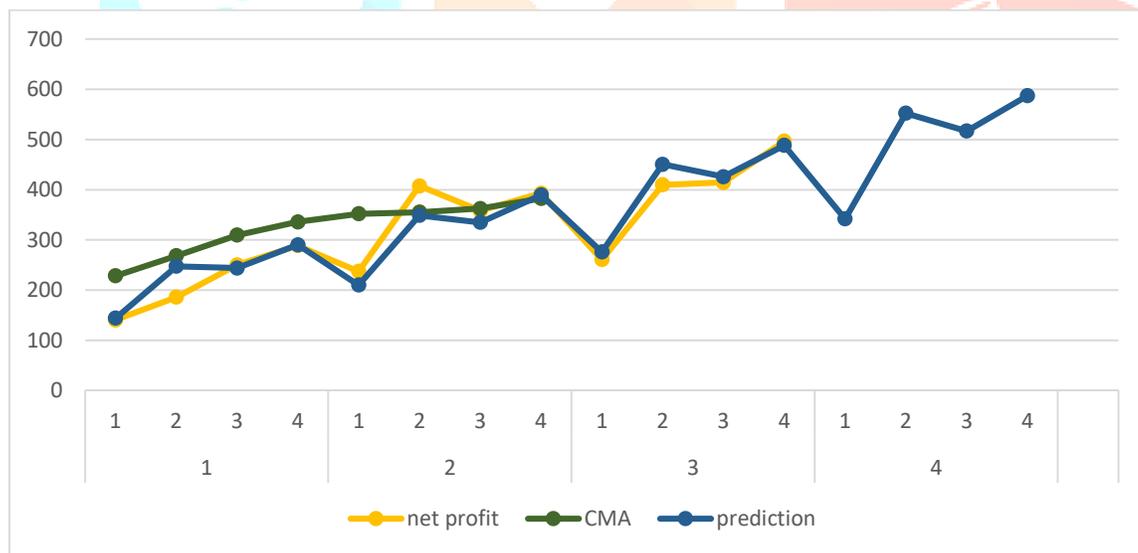
especially in Q4. Predictions for Year 4 suggest continued strong growth, with Q4 net profit forecasted at 14,986.07.

Indostar finance Ltd



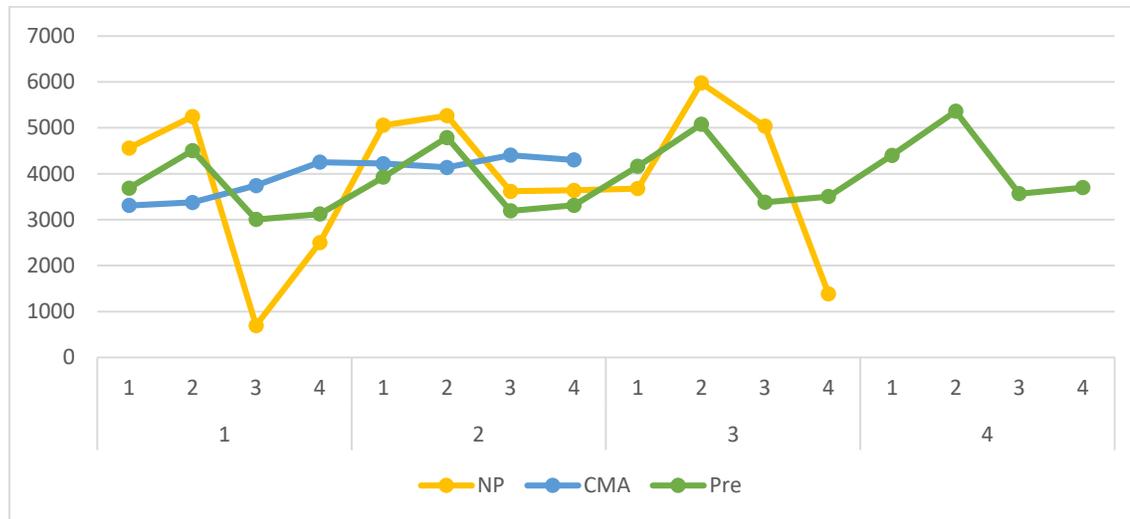
Indostar finance Ltd shows significant fluctuations in net profit, with Year 1 experiencing major losses, followed by a recovery in Years 2 and 3. Year 4 predictions suggest steady growth, with a net profit forecasted to reach 22,690.83 by Q4, indicating improvement.

Infibeam Avenues Ltd



Infibeam Avenues Ltd shows steady net profit growth over the years, with Year 4 projections indicating further improvement from 462.12 in Q1 to 587.17 by Q4. This reflects consistent growth in net profit across the years.

PTC Financial Services Ltd



PTC shows fluctuating net profit patterns, with Year 4 projections indicating steady recovery from 4038.08 in Q1 to 3697.51 by Q4. Despite volatility, there is a general trend of improvement in the later years.

Findings

- ESG scores show a strong positive correlation with ROE (0.7058) and a moderate correlation with ROA (0.5946), indicating that firms with higher ESG scores tend to perform better financially.
- Regression analysis confirms a significant relationship between ESG and budgetary indicators, with an R value of 0.820 and an R Square of 0.672, meaning 67.2% of ESG variation is explained by financial performance.
- Beta analysis shows market risk variations among financial institutions, with HDFC Bank having the highest volatility, Axis Bank and ICICI Bank showing moderate risk, and Indostar Finance and PTC Financial Services having lower volatility.
- Time series analysis highlights consistent profit growth trends for major banks, especially in Q3, while Indostar Capital Finance and PTC India Financial Services exhibit fluctuations but show signs of recovery.

Suggestions

- Financial institutions should strengthen ESG policies to improve ROE and ROA, thereby enhancing profitability.
- Investors should consider ESG performance alongside beta values to make well-balanced, risk-adjusted investment decisions.
- High-beta stocks like HDFC Bank and Infibeam Avenues offer higher risk-reward potential, while low-beta stocks like Indostar and PTC India provide stability.
- Regulatory bodies like SEBI should enhance ESG disclosure norms to promote transparency and sustainable financial practices.
- Financial institutions should integrate ESG considerations into strategic decision-making rather than just meeting compliance requirements.

Conclusion

The study highlights that ESG scores have a meaningful impact on the financial performance of Indian financial institutions. A strong positive relationship exists between ESG performance and key financial indicators like ROE and ROA, suggesting that firms with better ESG practices tend to achieve higher profitability. However, the weak correlation with Tobin's Q indicates that ESG factors do not significantly influence market valuation. Despite varying levels of market risk among institutions, the overall trend suggests that ESG integration contributes to financial stability and long-term growth. As regulatory requirements and investor awareness around ESG continue to evolve, financial institutions must recognize ESG not just as a compliance necessity but as a strategic driver of sustainability and competitive advantage.

References

- Hin and liu 2023 “The Affect of ESG Scores on Corporate Execution - A-Share Banks and Securities Firms” Volume- 163.
- Asmaranti, Yuztitya and Lokman, Norziana and Abdul Rahman, Rahayu 2024 “Corporate administration and genuine profit administration: prove from Indonesian false and non-fraudulent recorded companies” Volume-19.
- Simin chen 2023 “Environmental, social, and administration (ESG) execution and budgetary results:Analyzing the affect of ESG on monetary performance” Volume- 54.
- Tugba 2023 “Impact of ESG Engagement on Firm Performance: Evidence from Companies in the BIST Bank Index” Volume-38.
- Gil, Cohen 2022 “Environmental and Social Risks and Their Impact on Financial Stability: Evidence from the S&P 500 during the COVID-19 Pandemic (2019-2021)” Volume-58.

- Schaefer, Williams & Kerstin 2020 “The Affect of ESG Scores on Bank Execution in Developing Markets: Prove of a Positive Relationship with Profitability” Volume-45.
- Giese et al. 2019 “Foundations of ESG Contributing: How ESG Influences Value Valuation, Hazard, and Performance” Volume-45.
- Patrick Velte Prominent 2017 “The Affect of ESG Execution on Budgetary Execution: An Investigation of Natural, Social, and Administration Components” Volume-17.
- Lins, Servaes & Tamayo 2017 “Social Capital, ESG Execution, and Budgetary Execution Amid Monetary Crises” Volume-30.
- Cheng, Ioannou & Serafeim 2014 “Corporate Social Duty and Get to to Finance” Volume-35.

