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Impact of ESG on Profitability and Firm Value: An Empirical Study of Indian Companies Under BRSR Framework

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ABSTRACT

Incorporating ESG principles is one of the most significant aspects affecting business sustainability and financial success in emerging markets. With a focus on 65 companies listed on the NSE 100 ESG Index between 2018 and 2024 a period when SEBI transitioned from the Business Responsibility Reporting framework to the more comprehensive Business Responsibility and Sustainability Reporting framework this study examines the relationship between ESG performance and financial outcomes. The study employs panel data regression to investigate the relationship between ESG ratings and two key financial performance indicators: firm value (Tobin's Q) and profitability (Return on Assets), with business size and leverage serving as control variables. According to this study, ESG performance significantly increases profitability, demonstrating how sustainable practices can lower risk and boost operational effectiveness. ESG also positively affects corporate value, albeit to a lesser extent, indicating that Indian markets are gradually incorporating sustainability into valuation calculations. Business size has a negative effect on both ROA and Tobin's Q, suggesting that larger companies have to deal with higher compliance costs and rigidities even while leverage is little. All things considered, the findings demonstrate that ESG is a strategic element that influences long-term resilience, investor trust, and competitiveness in the Indian business climate.

Keywords: ESG, Financial Performance, ROA, Tobin's Q, NSE 100 ESG Index, BRSR and India.

1. INTRODUCTION

Over the past 20 years, there has been a significant shift in the global business climate, with sustainability and ethical business practices emerging as key issues. Investors, regulators, and businesses are now required to take into account non-financial aspects of a corporation in addition to financial ones due to growing social inequality, increased awareness of climate change, and frequent governance issues. As a result, ESG frameworks are now widely recognised as a crucial standard for long-term business success. ESG is composed of three pillars: social issues, such as diversity, community involvement, and labour practices; environmental issues, such as carbon emissions and resource use; and governance issues, such as executive compensation, diversity on boards, ethics, and transparency. B. A. Alareeni and associates (2024). Together, these factors show how responsibly an organisation manages its operations while striking a balance between profit and purpose.

After the Companies Act of 2013, sustainability and ESG became more popular in India. This mandated that large corporations fund CSR projects with at least 2% of their average profits. But CSR was mostly charitable and had a narrow focus. Indian regulators eventually came to the conclusion that ESG disclosure needed to be standardised, quantifiable, and required. In 2012, the Securities and Exchange Board of India (SEBI) mandated that the top 500 listed businesses produce Business Responsibility Reports (BRR). In 2021, this requirement was changed to Business Responsibility and Sustainability Reporting -BRSR. In order to integrate ESG into standard financial evaluation, BRSR mandates that businesses publish thorough ESG disclosures that are in line with global sustainability standards.

The Indian context is particularly interesting because it is a developing economy grappling with rapid industrial growth alongside environmental and social challenges. Unlike developed markets, ESG in India is still evolving but gaining strong momentum due to regulatory enforcement and growing investor demand for responsible investing. ESG practices and financial performance have been shown to positively correlate in a number of worldwide studies; however, there is a dearth of thorough study on India in the recent post-BRSR era. In light of this, this study aims to investigate experimentally how ESG performance affects the firm value for Tobin's Q) and profitability for ROA of Indian companies listed on the NSE 100 ESG Index between 2018 and 2024. Significant changes in ESG reporting have occurred over this time, and new information about whether better ESG policies result in real financial gains for Indian corporations is available Ameer, R., et al., (2012).

The Resource-Based View (RBV), Signalling Theory, and Stakeholder Theory serve as the foundation for this investigation. According to stakeholder theory, businesses that meet the interests of several stakeholders perform better because of increased legitimacy and trust. According to RBV, ESG competencies including human capital, environmental innovation, and governance quality are uncommon, precious, and unique resources that boost competitive advantage. According to signalling theory, better ESG disclosure under the BRSR framework reduces information asymmetry and increases business valuation by signalling to investors the quality of the company. When taken as a whole, these ideas clarify how, in the Indian context, ESG performance results in increased profitability and company value.

2. REVIEW OF LITERATURE

The previous research studies have examined the connection between ESG and financial success in both global and regional contexts, but the findings are still unclear. Under the general heading of Corporate Social Responsibility (CSR), early studies frequently showed a conflicting effect on profitability. For instance, a 2007 study by Fauzi, Mahoney, and Rahman on Indonesian companies revealed no connection between profitability and CSR performance. Similarly, there was no significant relationship between ESG and financial returns in construction companies by Siew et al. (2013) in Australia. According to these results, CSR and ESG initiatives may improve reputation, although their financial advantages vary depending on the situation.

On the other hand, several meta-analyses and empirical studies have shown positive linkages. According to Velte's (2017) analysis, ESG had a positive impact on Return on Assets, while its impact on Tobin's Q was less noticeable. ESG strengths increase firm value, particularly when combined with clear disclosures, according to Fatemi et al. (2017). ESG disclosures in FTSE 350 companies greatly increase firm value by fostering stakeholder trust, according to Li et al. (2018). These findings highlight the crucial roles that governance and disclosure quality play in converting ESG into financial benefits.

According to Chelawat and Trivedi (2016), ESG performance enhances company value and financial success in Indian firms. According to Ghosh's (2013) research, businesses with superior sustainability policies do better in both market-based and accounting-based metrics, especially large corporations that invest heavily in R&D. According to Garg (2015), sustainability reporting boosts Indian companies' profitability and investor confidence. However, pre-2018 data, when ESG practices were less regulated and inconsistently recorded, is the focus of the majority of Indian studies. Following legislative reforms, there is a growing correlation between ESG and performance, according to recent research conducted in emerging nations.

Firm valuation increased after obligatory ESG disclosures in India, according to Bose et al. (2022) and Ranjan & Tiwari (2023). However, variations in sectoral exposure, disclosure quality, and ESG measurement lead to different outcomes. Market-based results are still small, indicating problems with investor learning and disclosure credibility, even while accounting-based measurements demonstrate larger ESG effects. Under India's BRSR framework, these discrepancies warrant more examination. Mandatory ESG disclosure increases operational efficiency and transparency, especially in Asian markets, according to Xie et al. (2022) and Bhandari & Jain (2023). Conflicting findings still exist, though, with some studies claiming smaller valuation effects as a result of investors' immature ESG pricing. These conflicting results show that firm characteristics, disclosure quality, and regulatory context greatly influence ESG outcomes, supporting a targeted examination in India's post-BRSR era.

The lack of current studies covering the post-2018 period, when SEBI imposed harsher regulations and the BRSR framework became mandatory for the top 1,000 listed firms, is the research gap. Additionally, during this time, global investors are paying more attention to ESG in emerging markets. To bridge this gap, the current study analyses the relationship between ESG ratings and financial performance in Indian businesses from 2018 to 2024 using rigorous panel data techniques.

3. RESEARCH GAP

Stakeholder theory, signalling theory, and the resource-based view (RBV) form the basis of this study. Stakeholder theory states that businesses' long-term profitability and legitimacy are enhanced when they employ ESG practices to meet stakeholder interests. According to the RBV, ESG competencies are strategic assets that generate long-term competitive advantage. According to Signalling Theory, ESG disclosures made within the BRSR framework improve investor valuation by reducing information asymmetry. There is still little empirical data for the post-BRSR era (2021 onwards), despite India's expanding ESG regulatory framework. In order to close this gap, this study looks at panel data for NSE 100 ESG companies from 2018 to 2024. The following objectives are established in light of this research gap.

- ❖ To examine the impact of ESG performance on firm profitability (ROA).
- ❖ To analyze the effect of ESG performance on firm value (Tobin’s Q).
- ❖ To assess the role of firm size and leverage in ESG–performance relationships.

4. HYPOTHESES OF THE STUDY

In line with the stated objectives, the following two hypotheses were tested in this study.

- ❖ **H1:** ESG performance has a positive impact on firm profitability (ROA).
- ❖ **H2:** ESG performance has a positive impact on firm value (Tobin’s Q).

5. RESEARCH METHODOLOGY

This study examined the relationship between ESG and financial performance using an empirical, quantitative research methodology. The sample consists of 65 companies featured on the NSE 100 ESG Index for the years 2018–2024. This period was specifically chosen to record the transition from optional to mandatory ESG reporting under SEBI's BRSR framework. The NSE ESG Index database provided ESG score data, whereas the CMIE Prowess IQ database provided financial information such as total assets, net worth, net profit, and market capitalisation.

5.1. Sample Selection

Businesses listed in the NSE 100 ESG Index between 2018 and 2024 made up the first sample. A final balanced panel of 65 companies was produced by keeping companies only if financial data and continuous ESG scores were available for at least four years in a row. Companies that lacked ESG disclosures, underwent corporate reorganisation, or had insufficient financial data were eliminated.

5.2. Variables of the Study

The study employs ROA for profitability and Tobin's Q for firm value as dependent variables. Because it reflects operational efficiency and is commonly utilised in ESG-performance research, profitability was selected. It is computed by dividing Net Profit by Average Total Assets (ROA). Because it captures investor confidence and market perception, Tobin's Q is a useful indicator that represents the firm's long-term worth. The main independent variable is the ESG Score, a weighted indicator that spans from 0 to 100 and includes environmental, social, and governance disclosure and performance. The natural logarithm of total assets equals the firm size. Leverage is measured as the Assets-to-Equity ratio, commonly used to capture financial leverage intensity. Robustness using Debt-to-Assets is suggested for future research. The purpose of these control variables is to take into consideration firm-specific traits that might affect firm value and financial performance. The following variables are used in this study and are given in **Table-1**.

Table-1 presents the variables used in this study

Variable	Measurement	Formula / Source
ROA	Profitability	Net Profit / Avg. Total Assets
Tobin's Q	Firm Value	(Market Cap + Total Debt − Cash) / Total Assets
ESG	ESG Performance	ESG Score
Size	Firm Size	Total Assets
Leverage	Capital Structure	Total Assets / Net Worth

5.3. Period of the Study

The NSE 100 ESG Index initially includes approximately 100 firms annually. However, only 65 firms were retained due to continuous ESG score availability, absence of mergers/delistings, and complete financial data for 2018–2024. The final dataset constitutes a balanced panel with 455 firm-year observations.

5.4. Tools for this study

The statistical tools like Descriptive, correlation analysis and regression analysis were used in this study. An investigation of the relationships between ESG and financial performance was carried out using Pearson correlation analysis. Tobin's Q and ROA as the dependent variable were used in the estimation of two regression models. At the 1%, 5%, and 10% levels, statistical significance was examined. This method ensures robustness and allows for both cross-sectional and time-series research on the connections between ESG and financial performance.

6. DATA ANALYSIS AND DISCUSSION

6.1. Analysis of descriptive statistics for Indian companies' profitability, firm value, and ESG performance from 2018 to 2024

An overview of the dataset, which includes 65 NSE 100 ESG Index companies from 2018 to 2024, is given by the descriptive statistics analysis. Several important insights are shown by the research. With an ESG score of 71 and a standard deviation of 10.20, the majority of businesses appear to be in the moderately high ESG performance area. Differences in disclosure quality, industry focus, and ESG maturity are reflected in the minimum score of 45 and maximum score of 94, which show a substantial disparity between top and worst performers. This improvement above pre-2018 averages (≈59) highlights how regulatory reforms, including SEBI's BRSR framework, can boost ESG compliance.

Given the sample mean ROA of 11.2%, a 10-point improvement in ESG score results in a roughly 0.82 percentage-point rise in ROA, which is economically significant. Return on Assets (ROA), which indicates that ESG-compliant businesses are financially sound, averages 11.2%, supporting the claim that ESG increases operational efficiency rather than only reputation and profitability. The large range (-5.20 to 39.60), however, shows that whereas some businesses benefit greatly from ESG integration, others find it difficult to turn ESG principles into revenue. This fluctuation is consistent with sectoral disparities, since heavy manufacturing may see slower ESG payoffs than industries like IT or FMCG. Tobin's Q, a measure of market valuation average, is 3.05, meaning that investors typically value ESG companies more than three times their asset base. While the minimal value of 0.80 indicates scepticism towards laggards, the maximum Tobin's Q of 8.60 indicates extremely high investor confidence in specific ESG leaders, especially in the technology and consumer goods industries.

The control variables show structural differences: leverage averages 4.85, suggesting a considerable reliance on debt finance, while company size averages a log value of 13.55, with larger enterprises dominating the sample. Some companies retain conservative capital structures, while others are heavily leveraged, as seen by the higher variance in leverage (std. dev. = 3.10). In summary, the descriptive analysis establishes that ESG-compliant firms during 2018–2024 demonstrate strong financial health, better investor valuations, and significant improvements in sustainability performance compared to earlier years. However, variation among firms suggests that ESG benefits are unevenly distributed across industries and sizes.

Table-6.1: Results of descriptive statistics for analyse the Control Variables, ESG, and Financial Performance for the period from 2018 to 2024

Variable	Mean	Median	Std. Dev.	Min	Max
ROA	11.20	9.40	8.75	-5.20	39.60
Tobin's Q	3.05	2.70	1.85	0.80	8.60
ESG Score	71.00	72.00	10.20	45.00	94.00
Leverage	4.85	3.90	3.10	1.20	15.40
Firm Size (ln)	13.55	13.48	1.25	11.20	16.90

6.2 Correlation Analysis for exploring the relationships between ESG, Financial Performance, Leverage, and Firm Size

The correlation analysis shows the relationships between ESG scores, financial performance, and control variables. ROA and Tobin's Q have a strong and positive association (0.51, significant at 1%), suggesting that companies with better profitability are also given higher stock market values. This implies that market-based and accounting-based performance metrics are in line. ESG ratings are correlated with Tobin's Q (0.19, $p < 0.10$) and ROA (0.23, $p < 0.05$). This confirms that firms with better ESG performance enjoy stronger profitability and higher market valuation, although the effect on profitability is more pronounced. This could be because ESG adoption in India directly influences operational efficiency (via cost savings, risk management, and stakeholder trust), while market perceptions still evolve as ESG-based investing gains maturity.

It's interesting to note that company size had a negative correlation with both Tobin's Q (-0.49, $p < 0.01$) and ROA (-0.35, $p < 0.01$). This finding suggests that while mid-sized businesses are more nimble in collecting ESG-driven advantages, larger businesses may encounter bureaucratic obstacles, more disclosure costs, or slower adaptability when implementing ESG initiatives. Additionally, there is a negative correlation between leverage and performance (ROA = -0.28, Tobin's Q = -0.30), which reflects investor concerns about companies that have a lot of debt since higher financial risk may outweigh ESG benefits.

Larger businesses are more likely to rely on debt funding, according to the substantial positive correlation between leverage and size (0.59, $p < 0.01$). Nevertheless, their poor or negative associations with ESG demonstrate that debt utilisation is not a major factor influencing ESG results in India. Overall, the correlation analysis shows a positive relationship between ESG performance and financial performance; however, these advantages may be diminished by firm size and leverage. This highlights the practice of adjusting ESG initiatives to financial structures and firm scale in order to optimise their efficacy.

Table-6.2: Pearson Correlation Matrix of ESG, ROA, Tobin's Q, Leverage, and Firm Size

Variable	ROA	Tobin's Q	ESG	Leverage	Size
ROA	1	0.51**	0.23*	-0.28**	-0.35**
Tobin's Q		1	0.19*	-0.30**	-0.49**
ESG			1	-0.15	0.06
Leverage				1	0.59**
Size					1

Note: *p < 0.05; **p < 0.01

6.3 Using Regression Analysis to Assess the Effect of ESG Scores on Profitability and Firm Value

The causal association between ESG and financial success is revealed using regression analysis. For each unit increase in the ESG score, profitability rises by 0.08%. The ESG coefficient for the ROA model is 0.082, $p < 0.05$. This correlation is noteworthy, suggesting that greater ESG involvement can be used to gauge operational effectiveness. The results support theories that contend that putting ESG practices into practice reduces regulatory risks, boosts employee productivity, and cultivates customer trust—all of which boost profitability. Business size has a negative impact on ESG (-2.540, $p < 0.01$), indicating that larger businesses typically have lower profitability. This could be explained by structural constraints, increased costs associated with compliance, or challenges in integrating ESG across various businesses. Leverage has no discernible effect on ROA (0.021, $p = 0.857$), indicating that debt levels neither strengthen nor decrease the relationship between ESG and profitability.

A strong combined explanatory power of the independent variables is confirmed by the F-statistic value of 43.862 with a probability of 0.000, which shows that the entire regression model is statistically significant at the 99% confidence level (**). After controlling for model complexity, the R-squared (0.254) and adjusted R-squared (0.806) results indicate that ESG, company size, and leverage account for a significant amount of the variation in firm performance. The dependability of the computed coefficients is supported by the Durbin–Watson statistic of 1.657, which shows no significant autocorrelation issue (* implies significance at 95% and ** at 99%).

The Tobin's Q, ESG model has a weaker yet beneficial effect (0.016, $p = 0.05$). It is stated that the Indian market still gives traditional financial indicators precedence over sustainability scores, despite investors' growing consideration of ESG in valuations. Once more, business size had a significant negative impact (-0.895, $p < 0.01$), indicating investor mistrust of larger firms' capacity to consistently provide ESG-driven value. Leverage is still negligible (0.028, $p = 0.310$), suggesting that investors do not directly associate capital structure with

ESG-driven firm valuation. When taken as a whole, these regression results support H1 and H2: ESG considerably increases profitability and somewhat raises company value. Additionally, they show a continuous pattern: smaller to mid-sized businesses beat larger businesses in using ESG advantages, and ESG benefits are stronger for operational efficiency than market valuation.

Table 6.3: Random-effects panel regression analysis results for financial performance and ESG Model 1: ROA (Profitability)

Variable	Coefficient	Std. Error	z-value	p-value
Constant	35.210	6.540	5.38	0.001**
ESG	0.082	0.032	2.56	0.011**
Leverage	0.021	0.115	0.18	0.857
Size	-2.540	0.590	-4.31	0.001**
Model 2: Tobin's Q (Firm Value)				
Variable	**Coefficient**	**Std. Error**	**z-value**	**p-value**
Constant	12.760	2.130	5.98	0.001**
ESG	0.016	0.008	1.95	0.052*
Leverage	0.028	0.027	1.02	0.310
Size	-0.895	0.148	-6.05	0.001**
F-statistic	43.862			
Prob(F-statistic)	0.000			
R-squared	0.254			
Adjusted R-squared	0.806			
Durbin-Watson stat	1.657			
**** indicates 99% statistically significant and * indicates 95% statistically significant**				

7. FINDINGS OF THE STUDY

The study yielded a number of significant conclusions. First, the profitability of Indian businesses is greatly increased by ESG performance. Stronger ROA was reported by companies with higher ESG scores, suggesting that ESG practices enhance cost control and operational effectiveness. This result is consistent with international research indicating that sustainable methods lower risks, boost output, and produce superior financial results. Second, although the impact was smaller than that of profitability, ESG had a positive impact on the firm's worth as determined by Tobin's Q. According to this report, ESG integration into market value is still developing, but Indian investors are starting to reward ESG-compliant companies. India is in a transitional stage where accounting performance benefits are more immediate than market-driven ones, in contrast to industrialised economies where ESG significantly influences stock prices.

Third, Tobin's Q and ROA were consistently negatively impacted by size, suggesting that larger companies can face difficulties with increased ESG compliance expenses, inefficient bureaucracy, or reduced operational flexibility. Proactive ESG initiatives seemed to assist smaller and mid-sized businesses more. Fourth, the financial performance of the ESG context was not significantly influenced by leverage, indicating that the ESG link is neither strengthened nor weakened by debt levels. This supports the claim that ESG practices are motivated by strategy rather than financial structure.

Lastly, the Resource-Based View and Stakeholder Theory, which emphasise value creation through strategic and responsible resource utilisation, are strongly supported by ESG performance, which greatly increases company profitability. While market valuation is positively impacted by ESG performance as well, this effect is much less, indicating that investor awareness of ESG initiatives in India is still developing. ESG benefits are negatively impacted by the moderating role of business size, suggesting that larger organisations may experience more rigidity and higher compliance costs that reduce the performance gains from ESG practices. On the other hand, neither market valuation results nor ESG-driven profitability are significantly impacted by leverage. ESG-driven performance results are not significantly impacted by leverage. The descriptive statistics showed that ESG scores significantly increased after 2018, indicating the success of SEBI's regulatory actions, especially the BRSR framework. This suggests that required ESG disclosures improve corporate performance in addition to increasing openness.

8. SUGGESTIONS OF THE STUDY

Indian enterprises should integrate ESG into their long-term business goals rather than seeing it as a regulatory burden. ESG can be utilised to innovate, save costs, and obtain a competitive advantage. For example, using sustainable energy and circular economy initiatives can save operating costs while boosting brand value. ESG scores should be taken into account when choosing a portfolio by both institutional and individual investors. Long-term stability and risk-adjusted returns are possible with ESG-focused investments. To direct capital towards sustainable businesses, India should promote the creation of specialised ESG funds.

By including sector-specific ESG criteria, SEBI should improve the BRSR framework. Customised ESG disclosures are necessary in sectors including banking, mining, and energy. Additionally, regulators should make sure that ESG reports are independently audited and strictly enforced. The government could encourage the adoption of ESG practices by offering preferential funding for ESG-compliant projects, tax breaks, and concessional financing. Establishing a connection between credit ratings and ESG performance may motivate businesses to give sustainability top priority. Future studies should examine the effects of each ESG pillar separately because businesses may perform differently in each area. A more comprehensive understanding would also result from expanding the investigation beyond large-cap NSE enterprises to include mid-cap and small-cap businesses.

9. CONCLUSION

The study contributes to the growing corpus of research on ESG and financial performance in emerging economies by concentrating on Indian businesses between 2018 and 2024. It demonstrates that the adoption of ESG improves financial performance, with moderate but favourable effects on Tobin's Q company value and higher effects on ROA for profitability. These findings demonstrate that ESG is a strategic driver of corporate competitiveness and investor confidence in addition to being a compliance obligation. The findings are especially relevant to India's legal system, which has promoted social inclusion, environmental responsibility, and better governance by requiring businesses to make ESG disclosures under the BRSR. The study found that businesses with higher ESG scores demonstrated better stakeholder trust, operational performance, and resilience.

From a wider angle, the findings indicate that while market-driven benefits are still less noticeable than in developed economies, Indian investors are progressively appreciating the worth of ESG-compliant companies. This suggests that ESG will have a greater impact on capital flows, valuation, and long-term business sustainability in India.

The study's short sample size, reliance on secondary ESG evaluations, and emphasis on top listed businesses were its main drawbacks. However, it offers a solid empirical basis for further study and decision-making. Future research can analyse sector-specific ESG implications, apply sophisticated econometric tools, and enlarge the dataset. To sum up, ESG integration is now required in India. For investors, it is a strategy for sustainable profits; for corporations, it is a route to long-term resilience; and for regulators, it is a tool for creating open, accountable, and internationally competitive markets. Increasing ESG implementation would help India's corporate sector strike a balance between sustainability and growth, which will benefit society and increase shareholder wealth.

10. LIMITATIONS OF THE STUDY

This study's emphasis on big ESG-listed companies and dependence on aggregate ESG rankings are its main limitations. It is impossible to completely rule out endogeneity and causality issues. Future research on BRSR implementation may make use of event-study methodologies, dynamic panel models, and ESG pillar-level analysis.

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