Traditional vs. ESG-Driven Investments: A Comparative Analysis of Financial Performance, Risk, and Long-Term Sustainability in India

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Abstract

This paper deep dives into a scholarly investigation of conventional and Environment, Social, and Governance assisted investments in case of India. It also analyzes their economic results, levels of risks, and sustainability in the long run. The research attempts to understand what motivates the ESG investments, including some aspects of the Union Budget 2025, national policies, G20 pledges as well as India's Sustainable Development Goals (SDGs). Also, the study seeks to understand the significance of ESG investments for young professionals and highlights some of the gaps in current literature with aims and future research suggestions.

Key Words: ESG investment, ESG vs Traditional investment, ESG Performance analysis

1. Introduction

India's investment panorama is evolving, with ESG-driven investments gaining prominence as traders are trying to find sustainable, ethical, and profitable opportunities. Traditional investments, targeted only on monetary returns, at the moment are competing with ESG investments, which consider environmental, social, and governance factors.

This paper objectives to provide an in depth comparison among conventional and ESG investments in India by way of assessing their monetary performance, threat factors, policy affects, and long-term sustainability. Additionally, the paper examines how ESG investments align with India's financial dreams and presents case research on sector-sensible adoption of ESG standards.

2. Review of Literature

1. **Dhuri, Maithili & Sinha, Ritu & Shukla, Smita. (2024**). This study examines the reliability of ESG ratings in investment decisions using CRISIL's 2022-23 mutual fund ratings. Findings show no consistent correlation between ESG ratings and financial performance, as some high-rated funds underperformed. Investors should balance ESG ratings with traditional financial metrics for informed decisions.
2. **Thakrar & Bhurat (2023)** performed a comparative take a look at on ESG and traditional finances in India, studying Jensen's Alpha, Sharpe Ratio, and Treynor Ratio. The look at found that ESG price range outperformed conventional price range in chance-adjusted returns over a 5-year length.
3. **Saklesh S Nagouda & Manu K S (2023) -**This study examines the impact of ESG factors on the

financial performance of the companies listed at Sensex, using panel regression over ten years. The findings indicate a low correlation between ESG scores and financial indicators, without significant impact, except for stock prices. The results provide information to investors and policy training on ESG integration in investment strategies.

4. **Abhishek Dutta** & **Baitali Paul (2022)** performed a study which analyzes the 24- month post-COVID performance of select ESG funds using CAGR, Sharpe Ratio, Treynor Ratio, and risk metrics. Findings show most funds underperformed in returns but remained defensive with satisfactory diversification.

5. **Manav Shah (2022) -** This study investigates the impact of ESG investments on the financial performance of Indian -listed companies and sector -wise portfolio using the sharp ratio. Finding indicates the upward trend in stock prices with increased instability, while the overall portfolio display has decreased after ESG, except for minor improvements to sectoral portfolio. This study provides insights for investors, fund administrators and policy -parties on ESG -based portfolio selection in India.

6. **Swapan Sarkar (2022) -** ESG investing is gaining recognition globally, with companies in accordance with ESG mandates that should offer sustainable long -term performance. In India, ESG mutual funds had significant growth in schemes, aum and entries. The study finds that most of the backgrounds surpassed the market portfolio in 2021 and from the beginning.

7. **Dalal, K.K., & Thaker, N. (2019).** This study analyzes the effect of ESG factors on the economic performance of Sensex-listed companies that use panel regression over ten years. Findings show a low correlation between ESG scores and economic indicators, without significant impact except for the stock prices. The results provide insight for investors and decision makers on ESG integration into investment strategies.

3. Research Gap

While present literature highlights the performance and resilience of ESG funds, there's a paucity of studies focusing on the lengthy-time period comparative analysis of ESG and traditional investments in the Indian context. Additionally, the impact of recent policy shifts, together with the ones delivered inside the Union Budget 2025-26, on ESG investment trends remains underexplored.

3.1. Objectives

1. Compare the financial performance and risk profiles of traditional and ESG-driven investments in India.
2. Analyze the influence of recent policy initiatives, including the Union Budget 2025-26, on ESG investment growth.
3. Assess the potential and challenges of ESG investments for young working professionals in India.

4. Research Methodology

This study employs a mixed-method approach , integrating qualitative analysis of ESG policies, enterprise reports, and investment trends with quantitative evaluation of financial performance and risk metrics. The research aims to severely evaluate the monetary viability of ESG-driven investments as compared to traditional investments in India, whilst additionally studying regulatory rules, sectoral adoption, and investor sentiment, especially amongst younger experts.

4.1 Research Design

Research follows a comparative and analytical approach to assess ESG investment in three major areas:

1. **Financial Performance:** Evaluation of returns, volatility and risks of ESG funds compared to financial performance and risk-traditional funds.
2. **Policy and Regulatory Effects**: Union Budget 2025, SEBI ESG framework, how to affect SDG goals and G20 commitments affect ESG investments.
3. **Industry-wide ESG adoption:** Analyzing how ESG principles have been included in various fields including banking, IT, manufacturing and renewable energy.

4.2 Data Collection

1. Secondary Data Sources:
2. Morningstar India & Bloomberg ESG Reports
3. NSE India & BSE India mutual fund performance data
4. Union Budget 2025 (Provisions for green finance & ESG investments)
5. SEBI ESG Framework & Guidelines
6. G20 Sustainable Finance Roadmap & India's SDG Reports

5. Findings and Analysis

5.1 Comparative Analysis of Financial Performance and Risk Financial Performance

The study by Thakrar, Harsh and Bhurat, Charu evaluates. India's ESG funds using traditional threat-adjusted metrics along with Jensen's Alpha, Sharpe Ratio, and Treynor Ratio found that ESG price range frequently perform comparably to or even outperform market benchmarks . This suggests that integrating ESG factors does not compromise monetary returns. Further, research that specialize in emerging Asian nations, including India, demonstrated that ESG funds are less sensitive to danger elements, indicating resilience during financial downturns . This resilience may be especially high-quality in volatile markets, supplying a extra strong investment road.

Empirical data on ESG -versus traditional portfolio -oriented investments in India have attractive insights.

According to a study that evaluates the performance of the ESG funds using traditional metrics adjusted by risk, such as Jensen's Alpha, Sharpe Ratio and Treynor Ratio, ESG funds showed competitive returns compared to market benchmarks . In addition, the growth trajectory of ESG funds in India is remarkable, with assets under Management (AM) increasing from ₹ 2,747.36 crores by 2020 to 9,753 crores in 2024 . This increase reflects a growing appetite for the investor by sustainable investment avenues that do not compromise returns.

Recent studies on ESG-centric funds in India suggest that they often perform or perform equal to traditional investments.

1. Nifty ESG 100 Index vs. Nifty 50: National Stock Exchange (NSE) data suggests that the Nifty ESG 100 index has obtained a 15% average annual return, often beating the Nifty 50 in bear markets.
2. Global ESG Fund Comparison: A 2023 study by Morningstar India found that Indian ESG funds recorded high sharp ratios compared to traditional funds, suggesting better risk-working returns.
3. Case Study - Tata ESG Equity Fund: One of India's largest ESG funds, Tata ESG Equity Fund, has been recorded 12-14% CAGR returns in the last five years.

5.2 Risk Profile

ESG finances have a tendency to have lower volatility due to their attention on corporations with sustainable governance and moral commercial enterprise practices.

1. Reduced Exposure to Regulatory Risks: Traditional investments, especially in excessive-carbon industries (e.G., coal, oil), are susceptible to policy shifts and regulatory consequences. ESG funds mitigate such dangers by means of making an investment in smooth power, ethical labor practices, and compliant governance frameworks.
2. Better Resilience in Market Downturns: ESG budget experienced decrease drawdowns during the COVID-19 pandemic, proving their shielding nature in crises.

5.3 Risk Assessment

Risk assessment is fundamental in investment decisions. Traditional investments, focusing on short -term gains, can expose investors to regulatory, environmental and reputation. On the other hand, ESG investments aim to mitigate long -term risks, emphasizing sustainable practices and robust governance structures. This suggests that ESG -compatible companies are better positioned to navigate regulatory changes and social expectations, potentially reducing investment volatility.

5.3. Factors that drive ESG -based investments in India

1. Union Budget 2025

The Union Budget 2025-26 emphasizes India's commitment to sustainable development. Main initiatives include Viksit Bharat's nuclear power mission, with the aim of developing at least 100 nuclear energy gigawatts by 2047, this ambitious goal reflects a strategic movement towards clean energy, reducing dependence on fossil fuels and aligning with the global patterns of sustainability.

In addition, the budget proposes amendments to the 1962 atomic energy law, facilitating private investments in the nuclear sector. This change in policy is ready to attract national and foreign investors, promoting innovation and accelerating the transition to a low carbon economy.

2. National policies and G20 appointments

India's political scenario is increasingly favoring ex -expert investments. Government's dedication to the Paris Agreement and its nationally determined (NDCs) contributions to decarbonization are evident in initiatives that promote renewable and sustainable energy practices.

India’s Nationally Determined Contributions (NDCs) under the Paris Agreement include:

- Reducing Carbon Intensity by 45% by 2030.
- Achieving 500 GW of renewable energy capacity by 2030.
- Mandatory sustainability disclosures for industries in high-emission sectors.

Additionally, India's G20 presidency in 2023 focused on sustainable finance frameworks, encouraging foreign direct investments (FDIs) in green bonds and climate-tech sectors.

3. Sustainable Development Objectives (SDGs)

ESG investments are fundamental to advance in India's progress towards the United Nations SDGs. By channelling capital in sectors such as clean energy, medical assistance and education, ESG -focused funds address critical developmental challenges. This alignment not only contributes to social welfare, but also opens avenues for investors to participate in India's sustainable growth trajectory.

ESG investments directly contribute to India's progress on SDGs, particularly:

- **SDG 7 (Affordable & Clean Energy):** ESG funds are heavily investing in solar, wind, and hydro energy projects.
- **SDG 13 (Climate Action):** Sustainable infrastructure and carbon credit trading frameworks support India’s climate commitments.
- **SDG 8 (Decent Work & Economic Growth):** Ethical labor practices and inclusive workplaces are becoming key investment criteria.

ESG investment is inherent in line with long-term sustainability goals. Indian companies with strong ESG performance are likely to attract more investments, including ESG-focused funds. Regulatory initiatives, such as Securities and Exchange Board of Indias (SEBI) mandate for the top 1000 listed companies to reveal

ESG -related information through business responsibility and sustainability reporting (BRSR) frameworks, emphasizes the importance of

sustainability in business strategies. These measures not only improve transparency, but also position companies to utilize the growing demand for responsible business practices.

7. Limitations of the Study

- **Evolving ESG Framework**- Study is restricted by the evolution of ESG regulations and public dissemination standards in India, which can affect the accuracy and comparability of the data.
- **Short-term performance evaluation** -The relatively recent adoption of ex-expert investment in India, long-term performance trends remain uncertain.
- **Limited Sectoral Representation -** While the study analyzes various sectors, it may not comprehensively capture ESG adoption and financial impact in all sectors.
- **Market volatility and external factors -** the financial performance of ESG funds is influenced by macroeconomic conditions, regulatory changes and global market trends, making it difficult to isolate the true impact of ESG.
- **ESG Rating Methodology-** Differences in ESG score methodologies between classification agencies can lead to inconsistent ESG performance evaluations.

8. Future Scope

- **Policy Initiatives Effect** – Assessment of the impact of India Union Budget provisions, SEBI's ESG framework and G20 commitments on ESG investments.
- **Sector-Wise ESG Performance** – A detailed analysis at sector level could really prove effective to understand the impact of ESG compliance in banking, IT, manufacturing, and renewable energy.
- **Comparative Study with Global ESG Markets** – Understanding how India's ESG investment trends relate to global benchmarks can help calculate how competitive India is and how its goals align with international aspirations for sustainability.
- **Investor Behavior and Market Sentiment** – Examining the ways in which investor preferences, awareness, and behavioral biases affect ESG investment practices in India.

9. Conclusion

The comparative analysis of ESI -oriented traditional investments in India highlights the evolutionary investment scenario, where sustainability plays an increasingly vital role. While traditional investments continue to dominate the market, ESG -focused funds are gaining strength, offering competitive returns and improving risk resilience. The study finds that, although ESG investments display greater volatility, they align well with India's political goals, including commitments under the Budget of the Union 2025, G20 sustainability initiatives and UN sustainable development objectives (SDG).

Despite some concerns about short -term financial performance, ESG investments contribute to long -term sustainability, mitigating environmental and regulatory risks. Sectors such as renewable energy, IT and banks showed positive adoption of ESG, reinforcing investors' trust.

However, challenges such as green washing, inconsistent ESG classification methodologies and limited long

-term performance data still need to be addressed. In conclusion, while ESG investments in India are still evolving, they represent a promising path to align financial growth with sustainable development. Policy formulators, fund managers and investors must help standardize ESG disclosures and promote transparency to improve investors' trust. Future research should focus on refining ESG evaluation metrics and examining industry -specific impacts for a broader understanding of their long -term viability in the Indian market.

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