



ESG Insights for Corporate India

**Journey of NSE Top 500 companies
in Business Responsibility
Reporting**

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About Us

ESG Risk Assessments and Insights (ESGRisk.ai), is a wholly owned subsidiary of Acuité Ratings & Research Limited and is India's first ESG rating company with an India specific assessment framework.

ESGRisk.ai's rating, second party opinions and gap assessment is an objective, independent and unbiased opinion on a company's ability to mitigate future/emerging risks associated with Environment, Social, and Governance issues that have material financial impact based on publicly available data.

To actively contribute to and be aligned with the worldwide ESG movement and policy dialogue, we are signatories of various global frameworks. Being a member of the GRI community, ESGRisk.ai actively contributes to advancing sustainability reporting. Acuité Ratings & Research Limited together with ESGRisk.ai are also signatories to the UN Principles of Responsible Investment (PRI). Moreover, Acuité is the first credit rating agency from India to become a signatory of PRI's ESG in Credit Risk and Ratings Statement to enhance the systematic and transparent consideration of financial material ESG factors in the assessment of creditworthiness.

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Introduction

Environmental, social and governance (ESG) management at the company level is a key to ensure a country's sustainable development and to meet its global commitments of Sustainable Development Goals (SDGs) and the Paris Agreement. Identifying and managing material ESG risks is important for company's sustainable operations and business practices. ESG disclosure demands standard reporting frameworks, with Global Reporting Initiative (GRI) being widely used. However, there are many other globally recognized sustainability reporting frameworks, such as United Nations Global Compact (UNGC). In India, listed corporates are required to provide disclosures in line with Business Responsibility Report (BRR) to all its stakeholders.

The BRR report is divided into five sections, and it consists of nine principles (Refer to Annexure I).

Section A: General information about the company

Section B: Financial details of the company

Section C: Details on Subsidiaries and Supply-chain Partners

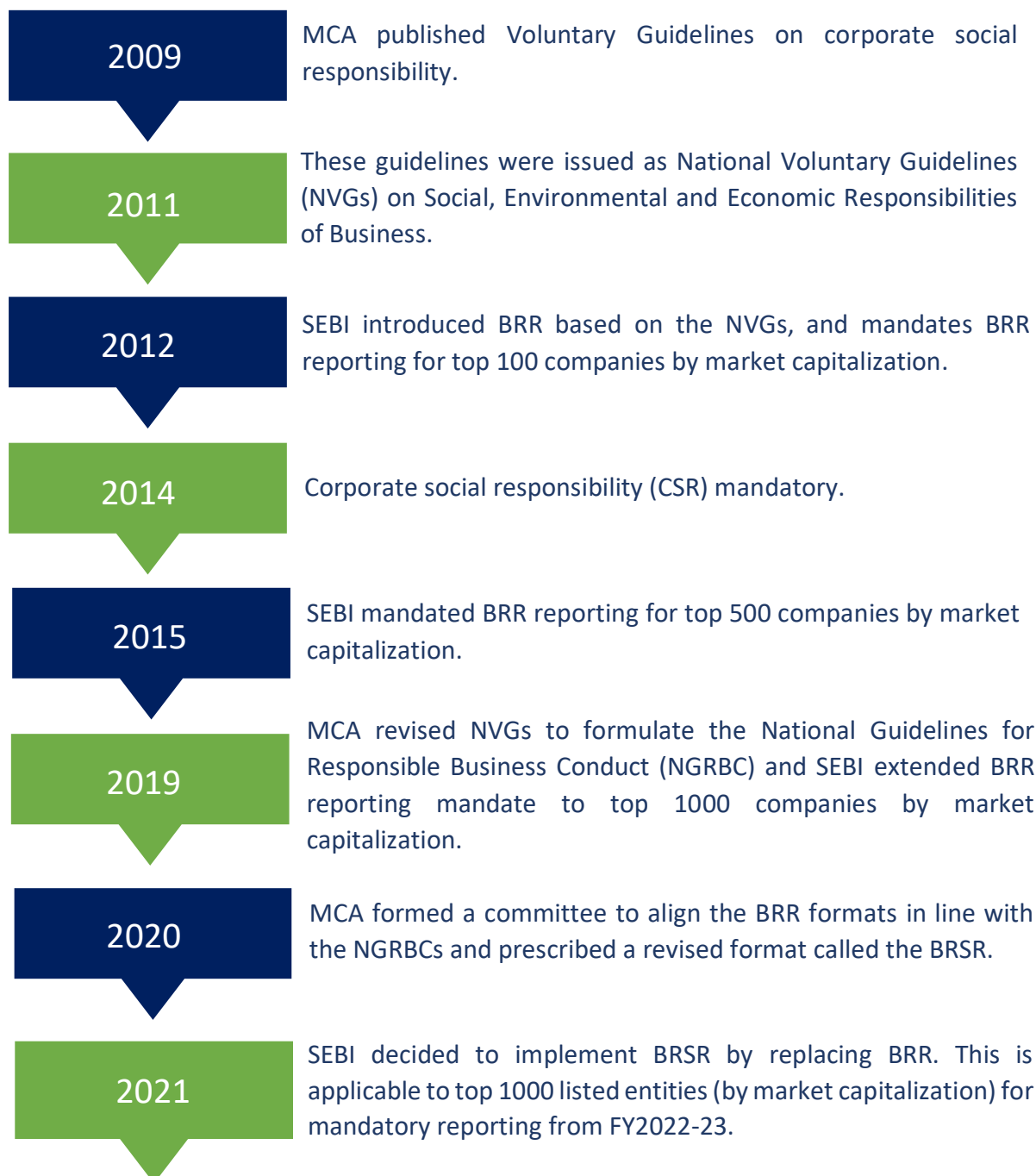
Section D: Business Responsibility and BR related policies

Section E: Principle-wise performance

Currently, the BRR is mandatory to NSE 1000 companies based on market capitalization. In May 2021, Securities and Exchange Board of India (SEBI) introduced Business Responsibility Sustainability Reporting (BRSR) and has prescribed the format of BRSR report along with the guidance note to enable companies to interpret the scope of disclosures required to be made in the report. BRSR will replace the existing reporting framework i.e., BRR. The move from BRR to BRSR has extended the depth and width of ESG reporting and brought company's disclosures closer to global standards. Areas addressed by BRSR are sustainable products & supply chain, material efficiency, ethical business practices, emissions management, data privacy & security, governance issues, environmental management, and employee quality & development.

Adopting ESG practices and disclosing them has become a mandatory action by the corporates. In this report, ESGRisk.ai will track the level of BRR disclosures by the industries and correlate it, with their ESG ratings and market capitalization. As the disclosures requirements in BRSR will increase, we have analyzed data gaps and highlighted use cases.

Regulatory Nudge for ESG disclosures in India



Companies other than top 1000 listed companies that have listed their specified securities on the Small and Medium Enterprises (SME) exchange may voluntarily submit BRSR from FY 2021-22.

ESGRisk.ai Analysis

BRR scoring methodology

ESGRisk.ai provides a BRR score for the companies based on their reporting disclosure. The score is based on indicators that correspond with BRR disclosures and is calculated as:

$$= \frac{\text{Number of indicators corresponding to BRR disclosures material to the industry where company has performed or complied}}{\text{Total material indicator corresponding to BRR disclosures}}$$

Based on the company’s disclosure of signals, ESGRisk.ai computes and publishes BRR scores that is largely relevant in the Indian context.

Comparison of BRR score – FY2020 and FY2021

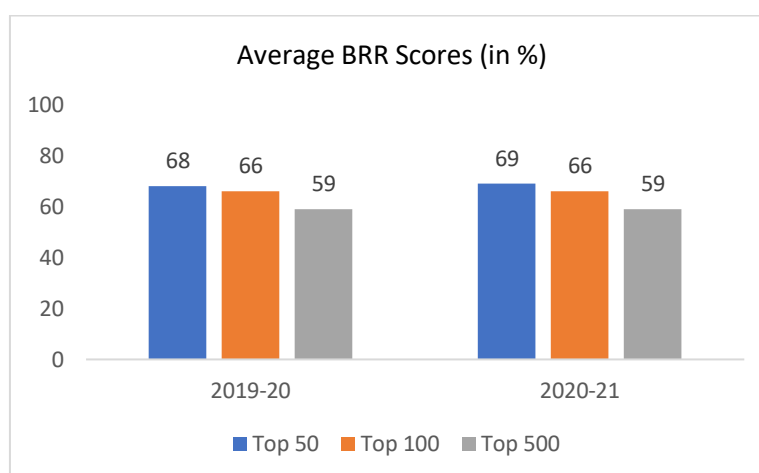


Figure 1 : ESGRisk.ai Research

According to ESGRisk.ai’s BRR scoring model, NIFTY 50 companies have a better disclosure of ESG related information as compared to NSE 100 and NSE 500 companies.

ESG Ratings and BRR score

The graph below represents the ESG Ratings and Average BRR Scores of the top 500 companies based on their disclosures provided.

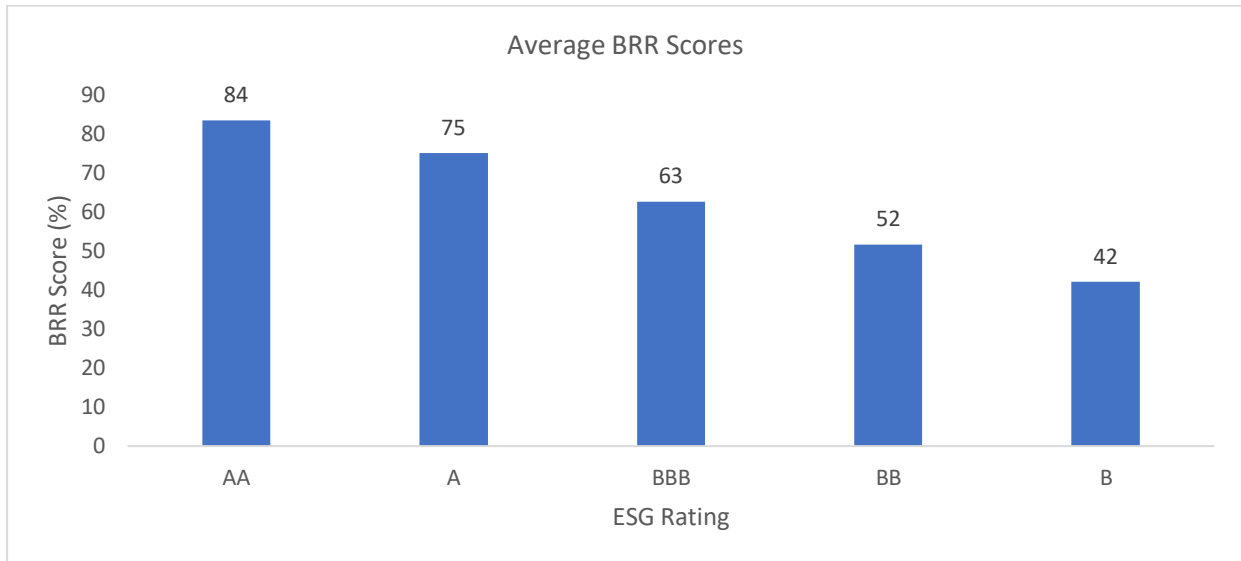


Figure 2 : ESGRisk.ai Research

The companies falling into the range of AA rating have a higher BRR score with an average of 84% disclosure rate followed by ESG RISK A scoring 75% on BRR. According to ESGRisk.ai’s research, ESG ratings and BRR disclosures have positive correlation.

Industry-wise BRR Performance

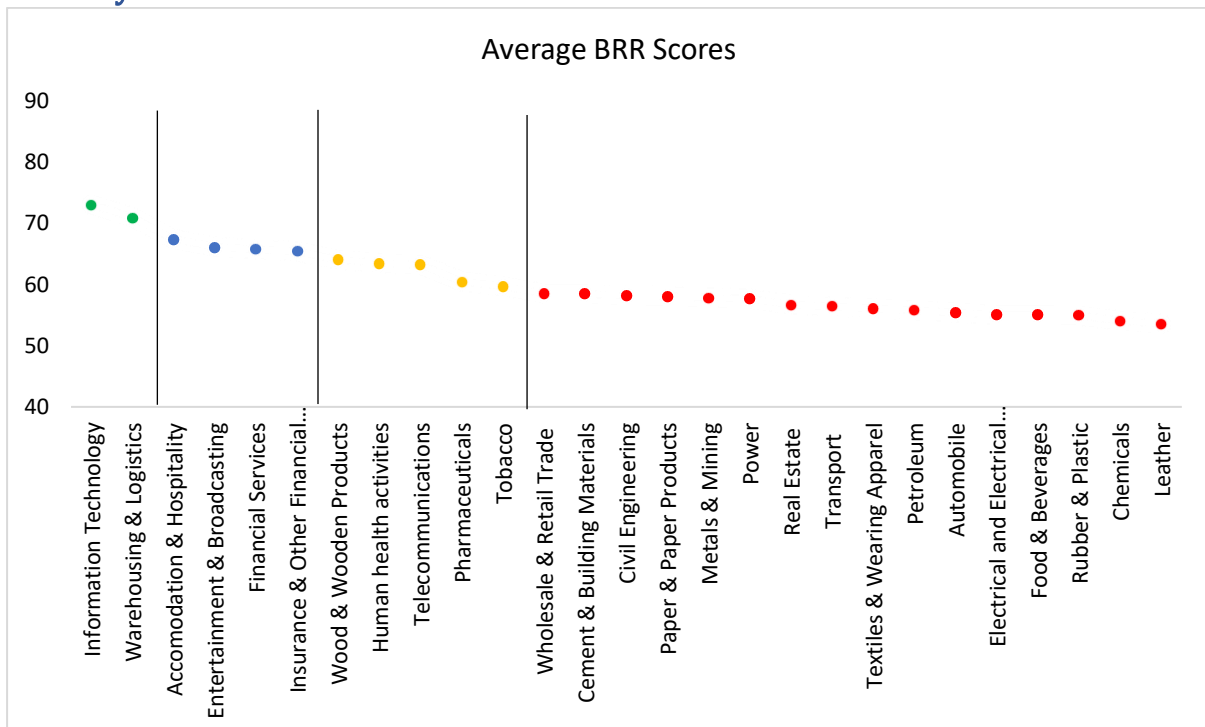


Figure 3 : ESGRisk.ai Research

The above chart is a quartile representation of industries average BRR scores. The Information Technology industry scores the highest in BRR followed by the Logistics & Warehousing industry. However, the Textiles & Apparel industry lack in terms of BRR disclosure, further reflected by their lower ESG scores.

Axis Bank Limited, HDFC Bank Limited, Infosys Limited and Larsen & Toubro Infotech Limited are top performing companies with respect to BRR disclosures. As good disclosures practices, companies report on the nine principles of National voluntary guidelines that include environmental and social initiatives adopted by the company. These companies disclose both positive and negative information that can affect the company's ESG ratings. An example for this is, in the business responsibility reporting companies disclose complaints filed during the fiscal year related to child labor, sexual harassments and discriminatory employment. Going forward, companies need to report based on BRSR framework, which is wider, deeper and demands quantitative indicators.

What's New in BRSR

BRSR is wider and deeper and covers more data points. The additional disclosures go beyond the strategy and compliance of a company and aims at disclosing the performance and results including negative news/controversies.

Additional data points in Governance Category

| Board Diversity | Management Compensation | Management Structure |
|------------------------------------|---------------------------|--|
| Board gender diversity | Total Workforce Salary | Total number of females forming part of the Key Management Personnel |
| Percentage of female board members | Board of Directors Salary | Key Management Personnel Gender |

In the governance category, business ethics is a significant issue and design and implementation of anti-corruption policy in the organization is critical BRSR includes a section on 'Transparency and Disclosure Compliances' that is to be updated by the companies. It includes complaints or grievances by the Community, Investors, Shareholders, Employees, Customers, Value Chain Partners and other stakeholders.

Additional data points in Environment Category

| ESG Reporting Transparency | Waste | Energy Efficiency | Environmental Management |
|----------------------------|----------------------------------|---|--|
| ESG Report | Extended Producer Responsibility | Energy Reduction Target Progress Update | Environmental Risk Management Program |
| ESG Report Scope | Waste Collection Plan | Energy Efficiency Audit | Environmental Expenditures |
| ESG Report Assurance | Waste Management Initiatives | Renewable Energy Use, Strategy & Target | Stakeholder Engagement on Environmental Issues |

In the environmental category, company needs to carry out LCA of its products, implement EPR and take ultimate responsibility of the products manufactured for its eventual recycling, reuse or disposal and report on scope 1, 2 & 3 emissions.

Additional data points in Social Category

| Community Support and Development | Employment Quality | Data Privacy and Security | Human Rights |
|--|--|---------------------------------------|--|
| Details of beneficiaries of CSR Projects | Fair Compensation Strategy | Data Privacy Strategy | Human Rights Strategy |
| Social Impact Assessment | Employee Reward & Recognition program | Data privacy and security initiatives | UN Declaration of Human Rights |
| Community Lending | Employee Turnover / Attrition Percentage | Data Security Audit | Training provided to employees on Human Rights Issues. |

BRSR has also enabled to capture data with respect to type of customers. The scope has further increased to customer safety, advertising and delivery, product recall, customer data privacy, action on consumer complaints, and grievance. These types of disclosures are useful for FMCG, Banking and food industry.

Conclusion

BRSR brings India’s sustainability reporting closer to Global Reporting Initiative’s (GRI) reporting standards. The integration of new areas like ESG reporting, board and management compensation, initiatives towards waste management have contributed considerably in BRSR becoming more aligned to global frameworks. The increased focus on performance, results and negative news puts more emphasis on actions towards sustainability as envisioned by Taskforce on Climate Related Financial Disclosures (TCFD) Framework.

BRSR successfully maps the ESG risks and sustainable practices of the company in an efficient framework. The three sections and nine principles help to disclose information of company’s ESG performance. There is a clear shift away from strategy centric reporting to the reporting of performance and result with special focus on sustainability aspects and making the identification of green washing possible. Also, the importance of good governance has been acknowledged by adding a wider range of reporting requirements under the governance category. BRSR becomes a comprehensive source for sustainability and responsible business practice information, which can help corporates and investors for decision-making.

For NSE 1000 listed Indian companies, the BRSR reporting is voluntary for FY2022 and mandatory from FY2023. However, there are certain companies such as Housing Development Finance Corporation Limited and Dalmia Bharat Limited that have already initiated reporting as per BRSR framework.

Annexure - I

| Principles | Description |
|-------------|--|
| Principle 1 | Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable. |
| Principle 2 | Businesses should provide goods and services in a manner that is sustainable and safe. |
| Principle 3 | Businesses should respect and promote the well-being of all employees, including those in their value chains. |
| Principle 4 | Businesses should respect the interests of and be responsive to all its stakeholders. |
| Principle 5 | Businesses should respect and promote human rights. |
| Principle 6 | Businesses should respect and make efforts to protect and restore the environment. |
| Principle 7 | Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent. |
| Principle 8 | Businesses should promote inclusive growth and equitable development. |
| Principle 9 | Businesses should engage with and provide value to their consumers in a responsible manner. |