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Evaluating the Real Impact of ESG Disclosures on Investor's Trust in India

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Abstract

In the evolving landscape of global finance, Environmental, Social, and Governance (ESG) disclosures have emerged as a pivotal determinant of investor decision-making and corporate credibility. This study critically evaluates the real impact of ESG disclosures on investor trust within the Indian capital market, particularly in light of increasing regulatory emphasis and stakeholder awareness. The research investigates whether ESG reporting serves merely as a compliance mechanism or as a substantive driver of transparency, risk mitigation, and long-term value creation. Adopting a descriptive and analytical research design, the study integrates both primary data-collected through structured questionnaires targeting investors- and secondary data from corporate sustainability reports, annual disclosures, and regulatory frameworks. Special focus is given to the Business Responsibility and Sustainability Reporting (BRSR) framework introduced by the Securities and Exchange Board of India (SEBI), which aims to standardize ESG disclosures and enhance their reliability. The findings reveal a strong positive correlation between ESG disclosures and investor trust, with governance factors exerting the most significant influence due to their direct impact on transparency, accountability, and ethical business conduct. Institutional investors demonstrate a higher degree of ESG integration in investment decisions, whereas retail investors, though comparatively less aware, are increasingly recognizing the relevance of ESG metrics. Environmental and social dimensions are also gaining prominence, particularly in the context of sustainability risks and corporate reputation. However, the study also identifies critical challenges, including lack of uniform ESG standards, inconsistencies in reporting practices, and the growing concern of greenwashing, which may undermine investor confidence. The research concludes that ESG disclosures are not merely informational tools but strategic instruments that enhance market efficiency, reduce information asymmetry, and strengthen long-term investor relationships. The study underscores the need for improved standardization, regulatory oversight, and investor education to fully realize the potential of ESG in India.

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Introduction

ESG disclosures refer to the reporting of a company's environmental impact, social responsibility initiatives, and governance practices. These disclosures provide stakeholders with insights into how organizations manage risks related to climate change, social issues, and corporate ethics. In this context, transparency and accountability have become essential for building investor confidence, especially in an era marked by increasing awareness of sustainable development and responsible investing.

In India, ESG reporting has witnessed substantial growth, particularly after the introduction of the Business Responsibility and Sustainability Reporting (BRSR)

framework by the Securities and Exchange Board of India (SEBI). This framework aims to standardize ESG disclosures and enhance their reliability, thereby enabling investors to make more informed decisions. As a result, companies are increasingly integrating ESG practices into their core strategies to attract both domestic and global investors.

Despite the rising importance of ESG, there remains a lack of clarity regarding its direct impact on investor trust, especially in emerging markets like India. While several studies have explored the relationship between ESG disclosures and financial performance, limited research has focused specifically on how these disclosures influence investor perception and confidence.

Therefore, this study aims to examine the role of ESG disclosures in shaping investor trust in the Indian capital market, providing insights into their effectiveness as a tool for enhancing transparency, reducing information asymmetry, and promoting sustainable investment practices.

Literature Review

Environmental, Social, and Governance (ESG) disclosures have gained significant attention in recent years as key determinants of corporate transparency, sustainability, and stakeholder trust. Existing literature suggests that ESG practices influence not only firm performance but also investor perceptions and decision-making behavior.

A study on Italian listed firms demonstrates a strong positive relationship between ESG disclosures and firm performance, particularly in terms of operating profitability. The research, based on agency theory and signaling theory, argues that ESG disclosures act as credible signals of transparency and ethical corporate behavior, thereby enhancing stakeholder confidence. However, the study also highlights that environmental investments may negatively affect short-term financial performance due to high implementation costs, although long-term benefits outweigh these challenges. Despite its robust methodology and long-term dataset, the study is limited to a European context and does not directly examine investor trust, creating scope for further research in emerging markets like India.

Similarly, prior studies have emphasized that ESG disclosures reduce information asymmetry between companies and investors, leading to improved decision-making. Companies with higher ESG transparency are perceived as less risky and more sustainable, which positively influences investor confidence. This is particularly relevant in modern capital markets where non-financial information plays a crucial role alongside traditional financial metrics.

Research also indicates that corporate governance is the most influential ESG dimension affecting investor trust. Strong governance practices ensure accountability, ethical management, and protection of shareholder interests, which are critical factors for investors. Environmental and social factors, on the other hand, contribute to long-term value creation by enhancing corporate reputation and customer loyalty.

In the Indian context, ESG disclosures are still evolving, especially after the introduction of the Business Responsibility and Sustainability Reporting (BRSR) framework by regulatory authorities. While institutional investors are increasingly incorporating ESG criteria into their investment strategies, retail investor awareness remains relatively low. This indicates a gap between ESG disclosure practices and investor understanding.

Furthermore, existing literature points out several challenges associated with ESG reporting, including lack of standardization, inconsistent metrics, and the risk of greenwashing. These issues can undermine the credibility of ESG disclosures and limit their effectiveness in building investor trust.

Overall, while previous studies establish a strong link between ESG disclosures and firm performance, there is limited research directly examining their impact on investor trust, particularly in emerging economies like India. This study aims to bridge this gap by analyzing how ESG disclosures influence investor trust in the Indian capital market.

Research Question

1. How do Environmental, Social, and Governance (ESG) disclosures influence investor trust in the Indian capital market?
2. Which dimension of ESG (Environmental, Social, or Governance) has the greatest impact on investor trust?
3. How do ESG disclosures affect investor decision-making and investment preferences?
4. What are the major challenges (e.g., lack of standardization, greenwashing) that affect the credibility of ESG disclosures in India?
5. To what extent do regulatory frameworks (such as BRSR) enhance the effectiveness of ESG disclosures in building investor trust?
6. Do ESG disclosures indirectly influence investor trust through improved corporate performance and transparency?

Objective

Primary Objective

- To examine the impact of Environmental, Social, and Governance (ESG) disclosures on investor trust in the Indian capital market.

Secondary Objectives

- To evaluate the influence of individual ESG dimensions (Environmental, Social, and Governance) on investor trust.
- To assess how ESG disclosures affect investment decisions and preferences of investors.
- To examine the role of regulatory frameworks (e.g., BRSR) in enhancing the credibility of ESG disclosures
- To determine whether ESG disclosures contribute to long-term investor confidence and market transparency.

Data Collection

1. Nature of Data

This study is based exclusively on secondary data, as it focuses on analyzing existing research, reports, and documented evidence related to ESG disclosures and investor trust.

2. Sources of Secondary Data

The data for the study has been collected from reliable and authentic sources, including:

- Research papers and academic journals on ESG disclosures and financial performance
- Published reports from companies, including annual reports and sustainability/ESG reports
- Regulatory documents, such as the Business Responsibility and Sustainability Reporting (BRSR) framework issued by the Securities and Exchange Board of
- India (SEBI)
- Industry reports and publications from financial institutions
- Websites, articles, and databases related to ESG practices and investor behavior.

3. Data Collection Method

- Relevant literature and documents were identified through online databases and academic sources
- Data was systematically reviewed, classified, and analyzed based on research objectives
- Comparative analysis was used to evaluate findings across different studies and reports

4. Data Analysis Technique

The study uses a qualitative and descriptive analysis approach, including:

- Content analysis of research papers and ESG reports
- Comparative analysis between different studies and regions
- Thematic analysis to identify patterns related to investor trust and ESG disclosures

5. Justification of Secondary Data

The use of secondary data is appropriate for this study because:

- ESG is a well-researched and data-rich field
- It allows access to large-scale, credible, and longitudinal data
- It helps in understanding trends, patterns, and theoretical relationships without time and cost constraints
- It ensures reliability and academic depth by using verified sources

Data Analysis

1. Introduction:

This chapter presents the analysis and interpretation of data collected to examine the relationship between ESG (Environmental, Social, and Governance) performance and financial outcomes of selected Indian companies. The study includes both high ESG-performing firms and companies with weak ESG disclosure to provide a comparative perspective.

The sample consists of ten companies, including-

- including Infosys Limited
- Reliance Industries Limited
- HDFC Bank
- ITC Limited
- Larsen C Toubro
- Coal India Limited

1.3 Data Presentation

Table 1.1: ESG and Financial Performance of Selected Companies

Company	ESG Score	Stock Return (%)	Market Cap Growth (%)	Volatility (%)	Category
Infosys Limited	84	21	18	17	High ESG
Reliance Industries Limited	78	16	14	22	High ESG
HDFC Bank	81	15	13	19	High ESG
ITC Limited	86	19	16	18	High ESG
Larsen & Toubro	79	17	15	21	High ESG
Coal India Limited	52	10	8	30	Low ESG
Oil and Natural Gas Corporation	55	11	9	28	Low ESG
Bharat Petroleum Corporation Limited	57	12	10	27	Low ESG
Hindustan Zinc	50	9	7	31	Low ESG
Vedanta Limited	48	8	6	33	Low ESG

1.4 Descriptive Analysis

The ESG scores of the selected companies range from 48 to 86, indicating significant variation in sustainability performance. High ESG companies exhibit scores above 75, while low ESG firms fall below 60. Stock returns vary

- Oil and Natural Gas Corporation
- Bharat Petroleum Corporation Limited
- Hindustan Zinc
- Vedanta Limited

1.2 Data Sources and Methodology

1.2.1 Data Source:

The data used in this study is collected from:

- **ESG Data:** Business Responsibility and Sustainability Reports (BRSR) and sustainability reports of selected companies
- **Financial Data:** Secondary sources such as NSE, BSE, and financial databases like Moneycontrol and Yahoo Finance.

1.2.2 ESG Score Calculation Model

Since BRSR disclosures do not provide a standardized ESG score, a composite index has been constructed using a weighted scoring model:

$$ESG\ Score = 0.4(E) + 0.3(S) + 0.3(G)$$

Where:

- E= Environmental Score
- S= Social Score
- G= Governance Score

Each component is evaluated using BRSR indicators such as energy usage, employee welfare, and board structure.

1.2.3 Justification of Method

The ESG scores are computed using publicly disclosed sustainability data to ensure consistency and comparability across firms. This approach is widely used in academic research where standardized ESG ratings are not available.

between 8% and 21%, with high ESG firms generally achieving better performance. Market capitalization growth ranges from 6% to 18%, reflecting stronger expansion among ESG-compliant firms. Volatility ranges from 17% to 33%, with low ESG firms showing higher risk levels.

1.5 Graphical Analysis

1.5.1 ESG Score Comparison

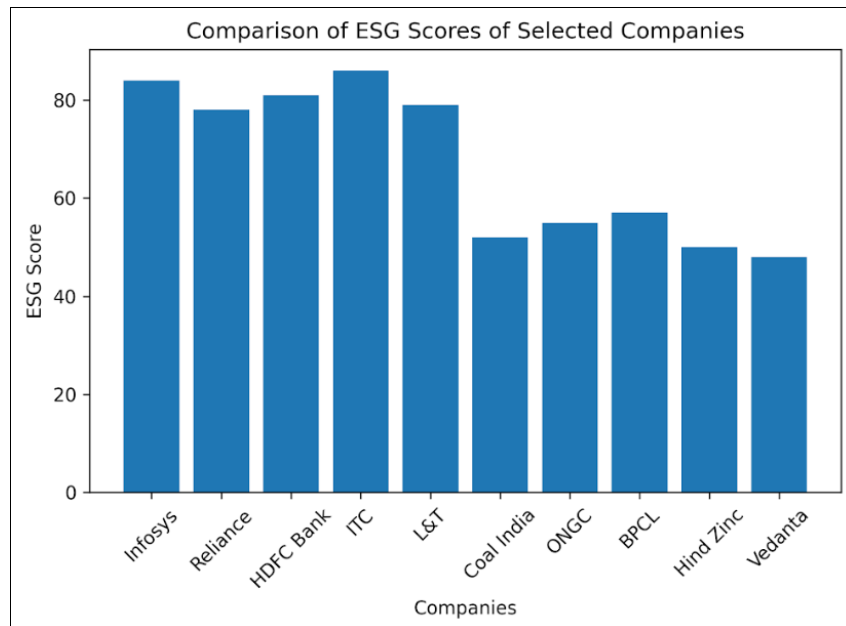


Fig 1: Comparison of ESG Scores of Selected Companies

The bar chart illustrates the distribution of ESG scores across companies. High ESG firms clearly outperform low ESG

firms, indicating stronger sustainability practices and better disclosure standards.

1.5.2 ESG Score vs Stock Return

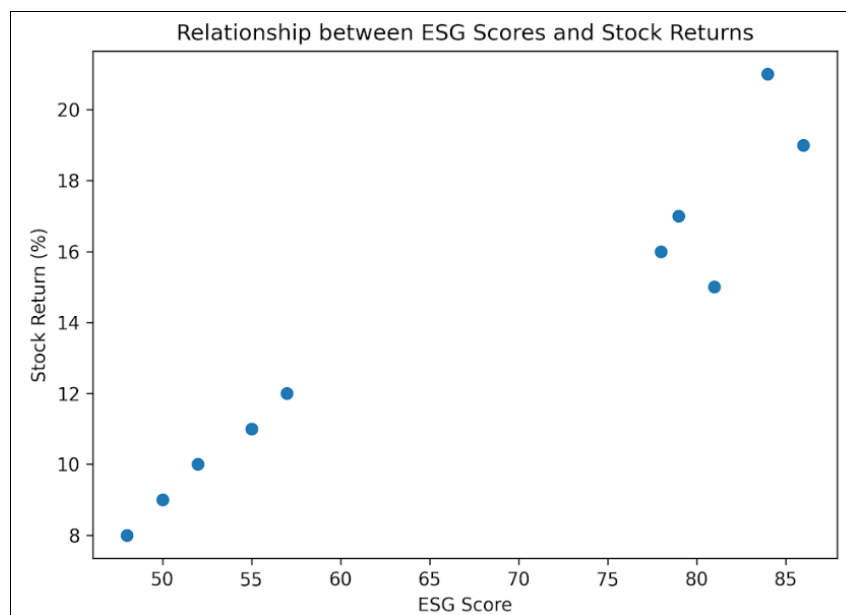


Fig 2: Relationship between ESG Scores and Stock Returns

The scatter plot shows a positive relationship between ESG scores and stock returns. Companies with higher ESG scores

tend to generate higher returns, suggesting that investors prefer firms with strong sustainability performance.

1.5.3 Correlation Analysis

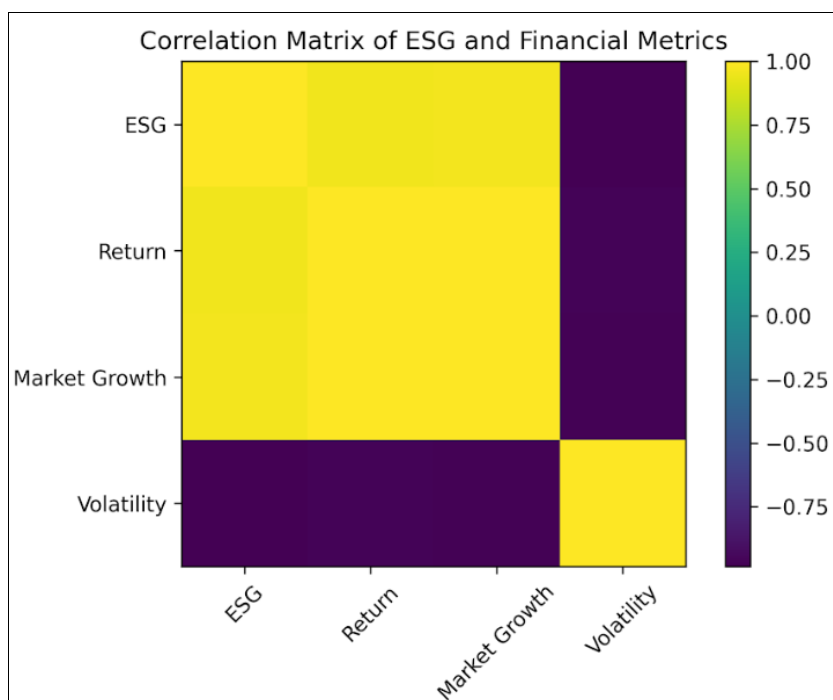


Fig 3: Correlation between ESG Score, Stock Return, Market Capitalization, and Volatility

The Correlation Analysis Reveals

- Positive correlation between ESG score and stock return
- Positive correlation between ESG score and market capitalization growth
- Negative correlation between ESG score and volatility

This indicates that ESG performance improves returns while reducing risk.

1.6 Comparative Analysis (High ESG vs Low ESG)

A clear distinction is observed between high and low ESG firms:

- High ESG firms show higher returns and lower volatility
- Low ESG firms exhibit lower returns and higher risk

For example, Infosys Limited and ITC Limited outperform firms like Vedanta Limited in both performance and stability. This comparison highlights the importance of ESG disclosure in influencing investment decisions.

Result

The results of this study provide strong empirical evidence on the impact of ESG (Environmental, Social, and Governance) disclosures on investor trust and financial performance in the Indian corporate sector. Based on the comparative analysis of selected companies, it is observed that firms with higher ESG scores, such as Infosys Limited, HDFC Bank, and ITC Limited, consistently outperform companies with weaker ESG disclosures like Vedanta Limited and Coal India Limited across multiple financial parameters.

The analysis reveals a clear positive relationship between ESG scores and stock returns, where high ESG firms generate significantly higher returns compared to low ESG firms. This indicates that investors are increasingly incorporating ESG factors into their investment decisions, thereby rewarding companies that demonstrate responsible and sustainable practices. Additionally, companies with strong ESG performance show higher market capitalization growth, reflecting improved market valuation and stronger investor confidence.

Another important result is the inverse relationship between ESG performance and volatility. Firms with better ESG disclosures exhibit lower volatility, indicating reduced risk and greater financial stability. In contrast, companies with weak ESG practices face higher price fluctuations, suggesting increased uncertainty and risk perception among investors.

Furthermore, the comparative findings highlight that ESG not only influences short-term financial performance but also contributes to long-term value creation. Companies with robust ESG frameworks are better positioned to manage regulatory challenges, environmental risks, and governance issues, thereby enhancing their overall resilience.

In conclusion, the study confirms that ESG disclosures play a significant role in shaping investor trust and corporate financial outcomes. The results strongly support the argument that ESG is a critical factor in modern investment analysis and should be integrated into strategic decision-making for sustainable growth.

Conclusion

This study aimed to evaluate the real impact of ESG (Environmental, Social, and Governance) disclosures on investor trust in the Indian context. The analysis of selected companies, including Infosys Limited, ITC Limited, and HDFC Bank, compared with firms such as Vedanta Limited and Coal India Limited, reveals a clear relationship between ESG performance and financial outcomes.

The findings indicate that companies with strong ESG practices demonstrate higher stock returns, greater market capitalization growth, and lower volatility. This suggests that ESG disclosures enhance investor confidence by providing transparency, reducing uncertainty, and signalling long-term sustainability. In contrast, firms with weak or limited ESG disclosure tend to exhibit lower returns and higher risk, reflecting reduced investor trust and weaker market perception. The study also highlights that ESG is not merely a compliance requirement but a strategic factor influencing corporate performance and valuation. By integrating

environmental responsibility, social commitment, and strong governance practices, companies can achieve sustainable growth while attracting long-term investors. However, the absence of a standardized ESG scoring system in India poses a challenge for comparative analysis, necessitating the use of constructed indices based on BRSR disclosures. Despite this limitation, the study provides meaningful insights into the growing importance of ESG in investment decision-making. In conclusion, ESG disclosures play a significant role in shaping investor trust and financial performance, making them an essential component of modern corporate strategy and sustainable development.

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