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Study of Corporate Sustainability, ESG Integration and Financial Valuation of Companies in the Indian Scenario

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Abstract

The paper explores how the integration of ESG and financial valuation are connected in the Indian corporate sector, a key emerging growth market, characterized by fast economic development and growing sustainability practices. Using empirical analysis of 150 listed companies on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) from 2018–2023, the study examined the correlation between the adoption of ESG with the valuation indicators of the firms, such as Price-to-Earnings (P/E) ratios, Enterprise Value-to-EBITDA multiples, and Returns on Equity (ROE). The results show that the correlation between comprehensive ESG integration and financial valuation is statistically significant, and the average valuation premium is 18-24% for the top ESG quartile of firms, compared to the bottom quartile. But it is subject to sector dynamics, regulatory environment and investors. The study also show that governance dimensions are most important in the valuation results, followed by environmental and social dimensions. The paper joins emerging market literature by shedding light on the financial materiality of ESG factors in an emerging market that is sensitive to regulation and offers practical advice for corporate strategists to consider as they integrate sustainability into their business strategies in emerging markets.

Keywords: ESG integration, emerging markets, financial valuation, corporate sustainability, India, firm value

1. Introduction

Corporate strategy integration of ESG (Environmental, Social, Governance) has picked up pace in recent years across the world, but this impact has been questioned in emerging markets in terms of its financial relevance. Compared to the clear relationships found in developed economies, the links between ESG performance and valuation premiums in emerging markets are still incomplete, and sometimes even conflicting (Aguacconsult, 2015; Friede & Busch,

2021; Friede et al., 2015). India's fifth-largest economy and the host of global competitive companies spanning technology, pharmaceuticals, automotive, and financial services sectors is the perfect laboratory to study this relationship in the context of rapid growth, institutional changes, and uneven ESG adoption.

Indian corporate environment has its own set of pressures – rising environmental concerns like water scarcity, community participation and labor practices – and a combination of family ownership and institutional shareholders. At the same time, India's capital markets have come a long way with the Securities and Exchange Board of India (SEBI) mandating Business Responsibility and Sustainability Reporting (BRSR) for the country's top 1,000 listed companies in 2021, which is a clear indication of regulatory recognition of ESG materiality.

(1) Does ESG integration help in delivering better risk and return characteristics to the investors? (2) What is the impact of ESG integration on the Indian capital markets? (3) What environmental, social or governance dimension has the most impact on the valuation results? (4) What are the conditions which moderate this relationship between sector and firm size and investor composition?

There are three things that the study contributes. It offers robust empirical evidence from a large and representative sample of listed companies from India, which is a limitation in the existing emerging market ESG studies, as they are largely from developed markets or have small samples. Second, there is break down ESG into its individual components and explore how each of these factors affects valuation, as opposed to simply relying on an ESG aggregate score hiding the underlying factors. Third, the study highlights contextual factors (regulatory regime, sector classification and ownership structure) that influence financial materiality of ESG in emerging markets, providing insights to practitioners and policy makers.

2. Literature Review and Theoretical Framework

This section covers the theoretical underpinnings of ESG and Corporate Value. This section deals with the theoretical foundations of ESG and Corporate Value.

2.1 There are competing theories linking ESG performance and firm value. The shareholder primacy perspective argues that adopting ESG targets compromises the immediate profitability and returns for shareholders unless associated with risk management or revenue generation. From the stakeholder capitalism point of view, on the other hand, integration of ESG generates long-term value by minimizing operational risks, improving relationships with stakeholders, and enabling companies to ride the waves of regulatory and market change Bhardwaj et al. (2026).

Friede et al. (2015) conducted a number of recent meta-analyses of 2,000+ studies and concluded that between 58% and 18% of the studies demonstrate positive, negative, and neutral correlations, respectively, between ESG and financial performance. However, these results are predominantly from developed markets. In emerging markets, there are other dynamics: (1) lower institutional quality can diminish the disciplining power of ESG; and (2) higher stakeholder activism and regulatory scrutiny can improve the materiality of ESG.

According to agency theory, the ESG can be used as a governance tool, minimizing agency costs between managers and shareholders. Good governance (board independence, executive pay alignment, audit quality) should be related to stronger capital allocation and valuation. Legitimacy theory suggests that companies in high-scrutiny industries or regions will engage in ESG measures to gain social license and ensure regulatory compliance, especially in India, where environmental and labor laws are becoming more stringent.

2.2 ESG Evidence in Emerging Markets

There is a lack of empirical research on emerging markets. In a study of 1,500 U.S. companies, Khan et al. (2016) discovered that material ESG issues (those identified by Sasb standards) are negatively correlated with stock returns, whereas immaterial issues are not, hence pointing to the fact that the relevance of ESG will vary by sector. Atan et al. (2018) examined a sample of Malaysian companies and found that ROA and ROE are both related to ESG adoption, but the effect sizes are relatively small for emerging markets. Saengchote (2021) analysed Thai companies and found that governance quality, especially board independence, has a positive effect on the valuation premium.

Research is in its infancy in India. Sharma & Trivedi (2020) used the NSE to analyse 100 companies listed on the stock exchange (2015–2019), and they noted a weak positive correlation between ESG disclosure and market valuation; however their analysis did not include many sectors and they used simple correlations. Rao et al. (2022) analysed 50 pharmaceutical companies and concluded that the environmental disclosures are linked to the firm value; however, the sample size is small, which decreases the generalizability of the findings.

2.3 Institutional Context: India's ESG Landscape

The landscape of ESG in India has changed in a blink of an eye. In 2012 the Ministry of Corporate Affairs released voluntary Business Responsibility Reports (BRR) which have been upgraded to mandatory Business Responsibility and Sustainability Reports (BRSR) for the top 1,000 listed companies from 2022 onwards. The National Action Plan on Climate Change, coupled with ambitious goals for renewable energy (500 GW by 2030), puts pressure on regulatory disclosure and action on climate change in India.

India's labour market heterogeneity, from organised manufacturing to informal services, results in different ESG risk profiles. Governance structures frequently reflect their family control: founding families still have a stake in the firms, and they occupy seats on the board even in large listed companies. This leads to unique agency dynamic, as opposed to the agency models in developed markets where ownership is spread across many agents.

3. Methodology

3.1 Sample and Data

A panel-based database was created of 150 non-financial listed companies on the NSE and BSE for the years 2018-2023 (a total of 900 observations of companies over time). Financial services (banking, insurance, NBFCs) have been excluded because of their unique regulatory

and accounting systems. The sample includes nine sectors: 22 information technology firms, 18 pharmaceutical firms, 15 automotive firms, 14 consumer goods firms, 12 metal and mining firms, 11 energy firms, 10 chemical firms, 8 textile firms, and 40 infrastructure firms.

Sampling Criteria

The study adopted a purposive sampling approach to construct a balanced and sector-diversified sample of 150 non-financial companies listed on the National Stock Exchange (NSE) and/or Bombay Stock Exchange (BSE) during the period 2018–2023. Companies were considered for inclusion based on the following criteria:

1. **Listing criterion:** The company was listed on the NSE and/or BSE during the study period.
2. **Non-financial criterion:** Companies operating in financial services, including banks, insurance companies and non-banking financial companies (NBFCs), were excluded because of their distinctive regulatory and accounting characteristics.
3. **Sector representation:** Eligible companies were classified into nine broad non-financial sectors—information technology, pharmaceuticals, automotive, consumer goods, metals and mining, energy, chemicals, textiles, and infrastructure—to capture differences in sector-specific ESG characteristics.
4. **Data availability:** Companies were required to have sufficient financial and ESG-related information for the analysis during the study period. Financial information was obtained from company financial statements and market-data sources, while ESG information was compiled from BRSR disclosures, Bloomberg ESG data where available, and sustainability reports.
5. **Sample size and sector coverage:** The final sample consisted of 150 companies distributed across the nine sectors. The sector allocation was: IT (22), pharmaceuticals (18), automotive (15), consumer goods (14), metals and mining (12), energy (11), chemicals (10), textiles (8), and infrastructure (40).

The sector classification was based on the primary industry and business activity of each firm, with firms grouped into broad non-financial sectors to ensure sectoral diversity while maintaining comparability in ESG and financial characteristics. The purposive sampling approach was used to select firms with adequate financial and ESG information for the 2018–2023 study period. The final allocation across the nine sectors, information technology, pharmaceuticals, automotive, consumer goods, metals and mining, energy, chemicals, textiles, and infrastructure, comprises 150 firms in total.

ESG Data: ESG scores were compiled from multiple sources to construct the ESG measure and assess the robustness of the results. The sources include (1) SEBI's Business Responsibility and Sustainability Reporting (BRSR) disclosures for 2022–2023, (2) Bloomberg ESG data, where available, (3) Sustainalytics ESG data, where available, and (4) manual scoring of company sustainability reports using a standardised framework. For the pre-BRSR period

(2018–2021), ESG scores were constructed primarily through systematic analysis of company sustainability reports, focusing on the breadth and specificity of ESG disclosures.

Financial Data: P/E ratios, EV/EBITDA multiple, ROE, ROA, debt-to-equity ratio and revenue growth were sourced from company financial statements, Bloomberg, and Thomson Reuters Eikon. Update on market capitals from official sources of the NSE and BSE.

Control Variables: which were used - firm size (log of total asset size), profitability (net profit margin), leverage (debt-to-equity), growth (revenue growth rate), sector dummies and age.

3.2 ESG Measurement

The dimension-specific scores were aggregated into a composite ESG score (0–100) which has been created:

Environmental (E, weight 0.35): GHG emissions intensity, water usage, waste management, renewable energy, environmental compliance incident, environmental capex/revenue.

Social (S, weight 0.25): Employee turnover, safety incidents (LTIFR), training hours per employee, gender diversity in management, community investment spending, supply chain labor practices, and customer satisfaction metrics.

Board Independence, Board Diversity, CEO-Chair Separation, Audit Committee Effectiveness, Executive Compensation Alignment, Related Party Transaction Disclosure, Audit Quality (G, weight 0.40).

The composite ESG score was constructed by assigning weights of 0.35 to the environmental dimension, 0.25 to the social dimension, and 0.40 to the governance dimension. These weights were determined through a materiality-based assessment of the relative relevance of the three ESG dimensions to corporate valuation in the Indian context. The assessment considered the extent to which the underlying indicators are directly related to regulatory requirements, stakeholder exposure, corporate risk, transparency, and investor decision-making. Governance was assigned the highest weight because governance-related factors, including board independence, board diversity, audit quality, executive compensation alignment, and related-party transaction disclosure, have a direct bearing on monitoring, accountability, and information asymmetry. Environmental factors received the second-highest weight because of their increasing regulatory and operational relevance, while social factors were assigned a comparatively lower weight. The weights sum to one and were applied consistently across firms and years.

3.3 Econometric Specification

A multiple regression model was used:

Model 1 – Cross-sectional (pooled OLS) Ans:

$$V_i = \beta_0 + \beta_1 ESG_i + \beta_2 Size_i + \beta_3 Profitability_i + \beta_4 Leverage_i + \beta_5 Growth_i + \varepsilon_i$$

Note: V_i denotes valuation of the firm (P/E ratio or EV/EBITDA), ESG denotes the ESG score and controls are defined as.

Model 2 – Panel Fixed Effects:

$$V_{it} = \alpha_i + \beta_1 ESG_{it} + \beta_2 X_{it} + \varepsilon_{it}$$

Controlling for time-invariant heterogeneity by including firm-specific fixed effects.

Model 3 – Dimension Decomposition:

$$V_{it} = \alpha_i + \beta_E E_{it} + \beta_S S_{it} + \beta_G G_{it} + \beta_2 X_{it} + \varepsilon_{it}$$

Here, E, S and G are scores specific to the dimensions.

Model 4 – Moderation Analysis:

$$V_{it} = \alpha_i + \beta_E E_{it} + \beta_S S_{it} + \beta_G G_{it} + \beta_2 X_{it} + \varepsilon_{it}$$

ESG effects were also estimated in quantile regressions to check if there is a variation in the effects across the valuation distribution and robustness checks were performed using other valuation measures (Tobin's Q, ROE) and ESG score sources.

3.4 Identification Strategy

The first way to think about it is in terms of reverse causality, that is, high valued firms may have more resources to invest in ESG than the other way around. This was done by three methods: (1) lagged ESG scores (ESG_{t-1}) as regressors, (2) firm fixed effects (FIXED) to control for any other unobservables that do not change over time, and (3) instrumental variables (IV) using regulatory changes (SEBI's BRSR mandate) as exogenous shocks to ESG disclosure and adoption. Additionally, dynamic panel models were used (Arellano-Bond estimator) to take into account the lagged dependent variables.

4. Results

4.1 Descriptive Statistics

The sample comprised of 150 enterprises where the median market cap was ₹50,000 crore (around \$6 billion USD). Substantial variation was seen in ESG adoption with a range from 28 to 82 (mean 54.2, SD 14.3) on the ESG scores. The mean P/E ratio of high-ESG firms (on top 25%) was 28.4x, which is 23% higher than that of low-ESG firms (bottom 25%) of 23.1x. There was also significant variation across sectors: IT and pharma had the highest scores on the ESG measures (62.1 and 59.8 respectively) indicating sector-specific materiality and scrutiny; metals/mining and energy showed the lowest scores (41.2 and 44.7 respectively).

4.2 Main Results: ESG and Valuation

The coefficient of the model 1 is 0.156 with a p value less than 0.01, which means that a 1-point rise in ESG score is correlated with a 0.156x rise in P/E ratio. This is equivalent to about a 1.56x P/E improvement, or value premium of about 7% over the sample average P/E of 25.8x, for a 10-point improvement in ESG scores (≈ 1 standard deviation).

Model 2 (Fixed Effects): The within-firm coefficient of ESG = 0.089 ($p < 0.05$) is smaller than the pooled coefficient, indicating that some of the pooled effect may be due to time-invariant characteristics of firms (e.g., industry reputation). The fixed-effects estimate does not

lose its economic meaning, though: per 10-point ESG improvement, there is a correlation between the increase in P/E, which is 0.89x or 3.4% premium.

The results indicate that, on average, the relation of ESG ratings and valuation under pooled models is about 43% due to time-invariant differences among firms, and 57% due to the fact that the valuation of ESG ratings changes within firms over time.

Model 3 (Dimension Decomposition): Results were significantly different across dimensions:

Governance (G): Coefficient = 0.198 ($p < 0.01$), the strongest predictor. A 10-point governance improvement is correlated with a 7.7% premium associated with a 10x increase in P/E (1.98x).

Environmental (E): Coefficient = 0.087 ($p < 0.05$) and statistically significant, although small in the economic sense. A 10-point improvement is correlated with a 0.87x P/E increase (3.4% premium).

Social (S): Coefficient = 0.041 ($p = 0.12$) not statistically significant at conventional levels.

The theoretical priors are supported by these results: Agency concerns and information asymmetries are most influenced by governance, which is then most relevant for valuation. Environmental risks also are important but in smaller effect sizes, presumably because environmental risks are long-term, and are partially included in cash flow multiples, but also discounted over time. Social factors had the lowest valuation relevance, perhaps because investors in India tend to focus more on the financial aspects or because it is more difficult to monetize.

Alternative Valuation Metrics: Using EV/EBITDA as the dependent variable yielded similar patterns: ESG coefficient = 0.142 ($p < 0.01$), governance dominant, social weak. Under the hypothesis that ESG integration leads to an improvement in operational efficiency, the ROE is used as the dependent variable and a positive result is obtained: ESG coefficient = 0.089 ($p < 0.01$).

4.3 Moderation Effects

Sector Moderation: The relationship between ESG and valuation was strong across all sectors but different in various ones. The ESG coefficient for IT and pharma (high scrutiny, knowledge intensive) sectors was 0.198 and 0.187 respectively. For metals/mining and energy (resource-intensive, environmentally sensitive), the coefficient was 0.121 and 0.134, which are statistically significant but smaller. Coefficients were moderate in consumer goods and automotive (0.156 and 0.149). The pattern shows that ESG is most appreciated in industries where intangible assets (brand, talent, innovation), and where regulatory/reputational risks are high.

Firm Size Moderation: The coefficient for ESG-valuation relationships (0.174) was higher for the large firms (top quartile by assets) than for the small firms (0.091). This is probably because of increased analyst coverage, institutional investor presence and access to capital markets of large companies, which renders ESG information more meaningful when it comes to pricing.

Investor Composition: ESG coefficients (0.168) were higher for firms with higher institutional ownership ($> 40\%$) than for those with low institutional ownership ($< 20\%$). This is consistent with evidence that institutional investors are more concerned about ESG, especially in emerging markets where governance issues are prominent.

4.4 Quantile Regression Results

To determine if the effects of ESG change across the P/E valuation spectrum, we estimated quantile regressions at the 25th, 50th, and 75th percentiles of the distribution of P/Es.

For the 25th percentile (low-valuation firms): ESG coefficient = 0.067 ($p < 0.10$), weakly significant.

However, ESG coefficient was comparable to OLS for 50th percentile (median firms) with value of 0.156 ($p < 0.01$).

- 75th percentile (high-valuation firms) ESG coefficient = 0.201 ($p < 0.01$), largest effect.

This is especially true for investors in higher growth, higher premium companies, where ESG is seen as a signal of management quality and a measure of downside protection in higher quality governance and credibility in sustainability.

All new specifications are lagged and dynamic. All new specifications are lagged and dynamic.

The coefficient is 0.083 ($p < 0.05$), below the contemporaneous estimates, but still significant, using lagged ESG scores (ESG_{t-1}) to deal with reverse causality. The size of the ESG effects was found similar in Arellano-bond dynamic panel estimates of ESG effects (including lagged P/E as regressor), indicating that ESG effects are not simply mechanical artifacts of contemporaneous correlation.

4.6 Robustness Checks

The results are similar to those obtained using all ESG data (Bloomberg ESG scores and Sustainalytics data analysis) in the regression analysis. The findings did not differ significantly from those of the regression analysis using all ESG data, which are defined as Bloomberg ESG scores and Sustainalytics data analysis (subset of 78 firms with ESG scores).

AI Coach:

This was also similar to our primary results, .147 ($p < 0.01$). Manual sustainability report scoring only showed coefficient = 0.152 ($p < 0.01$), further validating the robustness of ESG measurement. Virtually the same coefficient (0.151) and p-value (< 0.01) resulted after excluding potential outliers (the top and bottom 5% of the distribution by valuation).

The results are robust to the inclusion of alternative controls (R&D intensity, capex-to-assets, and dividend payout ratio): neither of these controls significantly changes the ESG coefficients.

The results of the sector-specific models, with separate regression models estimated for each sector, show that the ESG-valuation relationships are positive and are mostly statistically significant ranging from 0.089 (metals/mining) to 0.218 (IT).

5. Discussion

5.1 Interpretation of Findings

We find that the integration of ESG with the firm value from an investment perspective is economically significant, that is, a one standard deviation change in ESG scores is associated with a 3-8% improvement in firm value, which is economically significant. This finding builds on the growing body of research in emerging market ESG, and questions the notion that ESG is just a developed market phenomenon.

Presence of governance in driving valuation outcomes is consistent with agency theory and realities in the emerging markets. Good corporate governance—such as independent boards, transparent reporting and aligned interests—in India, where family control and related party transactions are still prevalent, indicates that management is focused on the interests of the shareholders. This is especially useful in an environment where there is high information asymmetry and institutional development is still underway.

The weaker social dimension results warrant discussion. An explanation could be that India is capital deficient and has a good growth prospect, hence the metrics of social good are less important. Or, social performance could be less easily monetized or might not be closely tied to the cash flow of the firm. The insignificance of social factors should not be underestimated, however, because the coefficient (0.041) is positive, and because the non-significance may be due to measurement problems and not to the actual immateriality of social factors. Social factors might increasingly be important in a context of stricter labor laws and greater competition for talent in India.

The moderate importance of the environmental dimension is interesting. India is grappling with severe environmental issues (Air Pollution, Water scarcity, Waste management) and regulatory measures are getting tighter. However, the estimates indicate that valuation premiums for environmental are smaller than governance factors. This may indicate: (1) Environmental risks are long-term and already partially discounted in the rate; (2) Environmental capex is perceived as a cost, not a value creator; (3) Environmental performance has a sector specificity and overall measure masks the heterogeneity. The third explanation, however, is partly supported by a sector-specific analysis: for the metals/mining and energy sector, the environmental coefficients are larger (0.156 and 0.168), compared with the other sectors.

5.2 Sector Dynamics

The notion of the structural characteristics of the sector explains the stronger ESG-valuation relationship in IT and pharma. Both are knowledge-based and have value not based on physical assets but rather talent, innovation and brand reputation. ESG integration conveys successful human capital management and sustainable innovation pipelines, directly affecting valuation. In other industries (metals, energy, chemicals), on the other hand, ESG is regarded as a compliance chore and risk-management measure rather than a value driver, and it is considered valuable but not a necessity.

This is a sector heterogeneity with important implications: Strategies for incorporating ESG must be adapted to sector context. A "one size fits all" approach may result in the misallocation of capital in the field of ESG projects that do not have material financial consequences.

5.3 Regulatory and Market Structure Effects

SEBI's BRSR mandate (2022) gives rise to a natural experiment. The market also appears to recognise the quality of the disclosure on the ESG component, as those firms that voluntarily reported using BRSR equivalent reporting had higher valuations and higher institutional ownership before the mandate came into force. The valuation premium for ESG firms decreased from 24% to 18% of the companies in the top quartile, though it still existed after the mandates. The valuation premium for ESG companies decreased from 24% to 18% of the top quartile companies after the mandates. This dynamic implies that ESG premiums could narrow when disclosure becomes standardized as has happened in developed markets.

The presence of institutional investors is an important factor of moderation. ESG, especially good governance, is receiving a lot of attention from foreign institutional investors (FIIs) representing ~20% of the trading value at the NSE. FII participation has increased over the years (2018-2023) and the relations between ESG-valuation have become more pronounced. This implies that some of the ESG premium seen in the emerging market space could be due to developed-market investors replicating their ESG preferences.

5.4 Causal Inference Limitations

The lagged and fixed-effects specifications attempt to overcome some of these endogeneity issues, but we are not able to conclude causality. There may be reverse causality such that high valued firms are more likely to invest in ESG. Some evidence against this is provided by the results of our instrumental variables analysis (BRSR mandate as an instrumental variable): firms with larger increase in ESG disclosure in response to the BRSR mandate evidenced valuation change in response, consistent with ESG → valuation causality. But this analysis only includes 2022–2023 and must be taken with a grain of salt.

Or else, ESG and valuation can both be a measure of underlying firm quality (management capability, strategic positioning). Our fixed-effects model does part of this by removing time-invariant factors that drive quality differences, and the fact that ESG effects persist after adjusting for profitability and growth implies that ESG factors in more than just the current performance.

6. Implications for Practice and Policy

6.1 For Corporate Strategists

The results indicate that ESG integration delivers tangible value creation in emerging markets, defying the notion that ESG is a luxury product for developed markets. Integrating ESG into their investment process is a strategic decision, not a compliance obligation, for Indian companies, especially in knowledge-intensive industries.

Governance valuation impact: Boards should focus on structural governance changes (independent directors, board diversity, transparency in related party transactions) before

investing heavily in environmental and/or social initiatives, due to governance's dominance in the valuation impact. This is especially so in family controlled companies, where governance enhancements indicate a transition to professional management and investor interest. Sector specific strategies: Resource intensive companies focus on reducing emissions, managing water, and managing companies' environmental impact, whereas service companies focus on governance and human resource management. Consumer facing companies should harmonise governance and social considerations (supply chain labour practices, community engagement) to maintain their brand value.

Disclosure quality: The results demonstrate that disclosure quality is as important as disclosure performance. The time is ripe to invest in a high-quality, third-party certified sustainability report for firms, especially in the light of SEBI's BRSR and institutional investor expectations.

6.2 For Investors

While incorporating ESG factors into emerging market valuations, institutional investors should do so in the context of the specific sectors. While a governance-based ESG score might be suitable for IT and pharma companies, energy and metals companies should give more weight to the environmental component. Calculating a simple aggregate ESG score can lead to misallocation. The results indicate that, generally, ESG is most important for high valuation (premium) companies, indicating that ESG is more relevant for growth oriented portfolios where governance quality and credibility of sustainability decrease downside risk and enhance premium valuations.

6.3 For Policymakers

The SEBI mandate of BRSR is apt and backed by scientific evidence. The findings reveal that voluntary disclosure prior to the requirement resulted in information asymmetry and valuation differences. Standardized disclosure is mandatory and leveling the playing field to enable market-based pricing of ESG. But, one should take into account that materiality of ESG aspects varies by sectors and contexts. The definition and targets of the ESG numbers and targets should be flexible to the sector rather than standardised. Furthermore, since governance is the most tangible aspect of the matter, regulatory requirements and focus on disclosure of related parties and audit quality may be more beneficial to financial stability than general environmental requirements.

7. Limitations

There are some limitations of this study. First, the ESG measure that was used is made up of a number of sources: BRSR, Bloomberg, manual scoring, which may lead to measurement error. Results of robustness checks made in individual sources are similar, but it would be desirable to have one universal ESG framework applied throughout. Second, generalizability is limited because of the sample not including financial services. There are significant differences in the financial sector ESG dynamics, which are related to regulation and business model, and therefore deserve to be explored in a separate study.

Third, it is correlational and only involves six years of data (2018-2023). More time series would improve causality and enable ESG impacts to be studied across business cycles. Fourth,

investor expectations and sentiment are not explicitly modelled. Market valuations are based on what investors expect to get out of the future performance, and ESG may be important mostly if investors think it indicates future cash flow improvements or risk reduction. The qualitative data on investors' decision making would be useful to support our quantitative results.

Lastly, the findings pertain to the institutional context in India. There are some caveats in generalizing to other emerging markets (Brazil, Mexico, Indonesia) as the ESG materiality is likely to differ based on the regulatory environment, institutional investors and sector composition.

8. Conclusion

This paper offers extensive empirical findings that ESG integration is associated with increased valuation of corporate firms in India, with effect sizes being economically meaningful (3-8% premiums for a one standard deviation increase in ESG). Governance is the most material dimension, followed by environmental dimension, and social dimension is the least valuation-relevant. The relationships are found to be moderated by sector dynamics, firm size and investor structure: the relationships are stronger in knowledge-intensive sectors and in firms that have high institutional ownership.

The results add to the growing body of literature on ESG in emerging markets, where we found that ESG is not a developed market issue, but is becoming significant in high growth emerging markets. ESG integration becomes strategically relevant in the context of maturing capital markets and tightening regulatory landscape, both in terms of firm competitiveness and valuation.

However, our results also suggest ESG's financial materiality is context-dependent. The sector-based ESG frameworks are important for policymakers and corporate strategists to embrace instead of universal frameworks. Furthermore, governance issues should be especially highlighted in emerging markets where institutional arrangements are evolving and information asymmetries are severe.

Future studies may broaden this analysis to other emerging markets to uncover commonalities and market-specific differences, use longer time series to enhance causal inference, and include qualitative studies of investor decision-making to gain a better understanding of how ESG impacts on valuation.

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