ISSN: 2178-7727
DOI: 10.17648/acta.scientiae.6369

"ESG DISCLOSURE AND FINANCIAL PERFORMANCE OF INDIAN COMPANIES: AN EMPIRICAL INVESTIGATION"

Dr Megha Thakur
Assistant Professor , DPG Degree College, Gurugram, Haryana
megha.thakur@dpgdegreecollege.com

Abstract

This study titled **"ESG Disclosure and Financial Performance of Indian Companies: An Empirical Investigation"** examines the relationship between ESG disclosure and financial performance among selected Indian companies. ESG disclosure includes three major dimensions: environmental responsibility, social accountability and governance transparency. The study highlights that ESG reporting has become an important part of corporate disclosure in India, especially after the introduction of SEBI's Business Responsibility and Sustainability Reporting framework for the top 1000 listed companies. The paper explains that ESG disclosure helps companies communicate their environmental practices, social responsibilities, governance systems, risk management, ethical conduct and long-term sustainability strategy. The study uses selected Indian companies such as Reliance Industries Ltd., Tata Consultancy Services Ltd., Infosys Ltd., HDFC Bank Ltd., ICICI Bank Ltd., ITC Ltd., Hindustan Unilever Ltd., Tata Motors Ltd., Maruti Suzuki India Ltd. and NTPC Ltd. ESG disclosure is measured through environmental and governance scores, while financial performance is measured through Return on Assets and Return on Equity. The findings show that Infosys Ltd. records the highest total ESG score, while Tata Consultancy Services Ltd. records the highest total financial score. The study indicates that ESG disclosure strengthens corporate transparency, investor confidence, stakeholder trust and long-term financial sustainability. However, the relationship between ESG disclosure and financial performance may differ across companies and sectors.

Keywords

ESG Disclosure, Financial Performance, Indian Companies, Environmental Score, Governance Score, ROA, ROE, Corporate Sustainability, BRSR, Investor Confidence

Introduction

ESG disclosure has emerged as an important area of corporate reporting and financial analysis in the contemporary business environment. ESG refers to three major dimensions of corporate responsibility: Environmental, Social and Governance. The environmental dimension includes issues such as carbon emissions, energy consumption, waste management, water conservation, climate-related risks and sustainable use of resources. The social dimension covers employee welfare, labour practices, gender diversity, human rights, customer responsibility, community development, health and safety and social inclusion. The governance dimension focuses on board structure, transparency, ethical conduct, shareholder rights, risk management, audit practices, regulatory compliance and accountability (Friede et al., 2015). Together, these three dimensions reflect the non-financial conduct of a company and show how responsibly a company manages its relationship with the environment, society, investors, employees, customers, regulators and other stakeholders.

In the modern corporate world, financial performance is no longer evaluated only through traditional indicators such as profit, sales growth, return on assets, return on equity, earnings per share, net profit margin and market value. Investors, regulators, creditors and stakeholders increasingly expect companies to disclose how they manage environmental risks, social responsibilities and governance standards. This shift has made ESG disclosure a significant part of corporate transparency (Khan et al., 2016).

Objective

1. To examine the relationship between ESG disclosure and financial performance of selected Indian companies.
2. To analyse ESG disclosure through environmental, social and governance dimensions.

Methodology

The present study is based on an empirical and analytical research design. It analyses how the ESG disclosure is linked to financial performance of some selected Indian companies. In this regard, the study has taken the top ten companies from the ten different sectors in the Indian context, such as Reliance Industries Ltd., Tata Consultancy Services Ltd., Infosys Ltd., HDFC Bank Ltd., ICICI Bank Ltd., ITC Ltd., Hindustan Unilever Ltd., Tata Motors Ltd., Maruti Suzuki India Ltd. and NTPC Ltd. The key variables in the study are ESG disclosure and financial performance. ESG disclosure is analysed from Environmental Score, Social Disclosure and Governance Score. These indicators can be used to gain insight into the level of commitment businesses demonstrate towards environmental responsibility, employee and social welfare, transparency, accountability and governance systems. The indicators of financial performance are Return on Assets and Return on Equity. ROA indicates how effectively the company is employing its assets to produce profit and ROE indicates how effectively the company is using shareholders' equity to return profits. The data has been illustrated in tables and figures for comparison. The Total ESG Score is derived from the environmental as well as the governance-related scores, while the Total Financial Score is derived from ROA and ROE. Once these scores are computed, the companies are then compared to see which companies have more robust ESG disclosures and which companies perform better financially. The study is conducted by descriptive and comparative method of analysis. Descriptive analysis is used to give an explanation on the meaning, importance and constituents of ESG disclosure and comparative analysis to compare ESG scores and financial performance scores of selected Indian companies. The methodology assists in understanding whether more transparent companies have better ESG disclosure findings and whether ESG disclosure contributes to greater transparency, investor confidence, stakeholder trust and long-term sustainability for companies.

A company with strong ESG disclosure is expected to provide better information about its sustainability practices, risk management systems, ethical standards and long-term business strategy. Therefore, ESG disclosure is not merely a matter of social responsibility; it has become directly connected with corporate image, investor confidence, market reputation and long-term financial sustainability. In India, the relevance of ESG disclosure has increased significantly due to regulatory developments, rising investor awareness and the growing importance of sustainable business practices. The Securities and Exchange Board of India introduced the Business Responsibility and Sustainability Reporting framework to strengthen sustainability-related disclosures by listed companies (Eccles et al., 2014). The BRSR framework became mandatory for the top 1000 listed companies by market capitalization from the financial year 2022–23, after being voluntary for the financial year 2021–22. This regulatory change shows that ESG reporting in India has moved from voluntary corporate communication to structured and standardized disclosure. SEBI has stated that BRSR aims to provide quantitative and standardized ESG disclosures to improve comparability across companies, sectors and time and to help investors make better investment decisions (Bhagat & Bolton, 2008).

The BRSR framework has widened the scope of corporate reporting in India. It requires companies to disclose information related to general business profile, employees and workers, gender representation, stakeholder complaints, grievance redressal mechanisms, material sustainability issues, ESG risks, opportunities and the financial implications of such risks and opportunities. This is important because sustainability issues are no longer treated as separate from financial performance. For example, environmental risks may increase production costs, legal liabilities, or compliance expenses. Poor social practices may affect employee productivity, brand value and customer trust. Weak governance may lead to fraud, mismanagement, investor distrust and decline in market valuation (Khan et al., 2016).

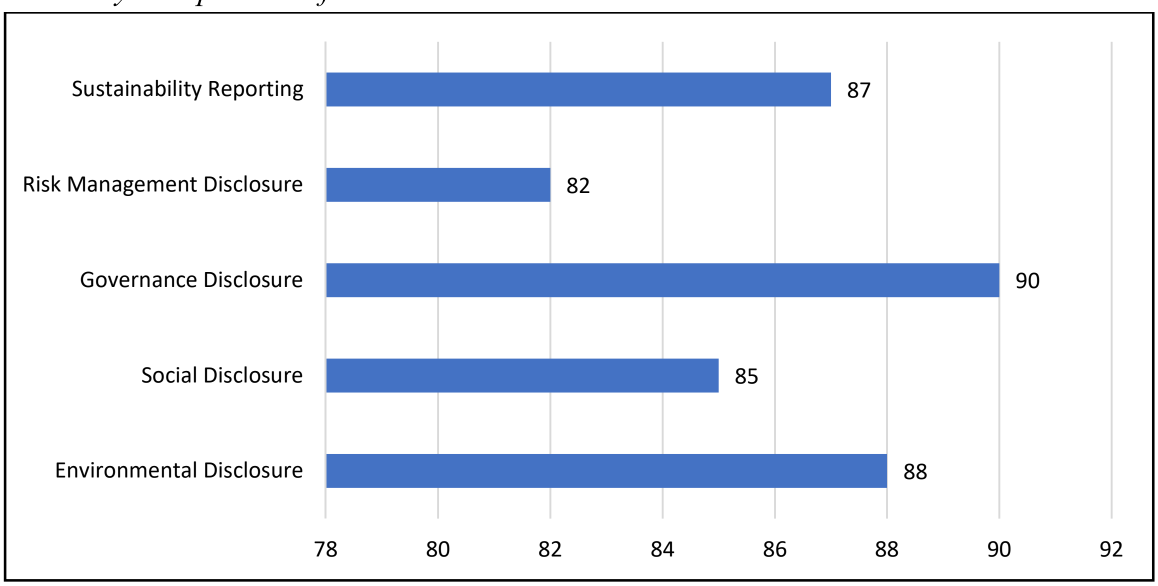
Conceptual Background of ESG Disclosure

ESG disclosure is the systematic reporting of a company's environmental, social and governance (ESG) related practices, policies, risks, responsibilities and performance. It is a non-financial disclosure, which is a reflection on the way in which a company deals with its effects on the environment, society, employees, consumers, investors, regulators and other stakeholders. The traditional corporate reporting is primarily financial statements, profitability, assets, liabilities, revenue and shareholder return. Today, however, there is a greater awareness of corporate performance that is needed for business evaluation (Hahn & Kühnen, 2013). This bigger picture is better captured by the disclosure under the ESG framework which will indicate if a company is operating responsibly, ethically, sustainably and transparently. ESG disclosure is rooted in the notion that a firm's long-term success not just hinges on financial strength, but also on how well it can manage environmental risks, social responsibilities and governance requirements. In the short-term, a business can have a lot of success, but if it does not take into account the damage it is doing to the environment, the welfare of the employees, the safety of the customers, the interests of the community, or the ethical governance of the company, then the long-term reputation and economic stability of the company may be compromised. ESG disclosure has thus emerged as one of the significant instruments to gauge the authenticity of corporate activities. It facilitates the understanding of stakeholders for the ability of a firm to generate long-term value (Kotsantonis et al., 2016).

Table 1: *Key Components of ESG Disclosure*

S. No.	Component of ESG Disclosure	Explanation	Value (%)
1	Environmental Disclosure	It includes information about carbon emissions, energy use, waste management, water conservation and climate-related practices.	88
2	Social Disclosure	It covers employee welfare, labour practices, workplace safety, gender diversity, customer responsibility and community development.	85
3	Governance Disclosure	It includes board structure, transparency, audit practices, ethical conduct, accountability and regulatory compliance.	90
4	Risk Management Disclosure	It explains how companies identify and manage ESG-related risks affecting business operations and financial stability.	82
5	Sustainability Reporting	It provides structured information about long-term sustainable business practices and stakeholder responsibility.	87

Figure 1: *Key Components of ESG Disclosure*



Source: Table 1

The value percentages in Table 1 reflect the relative weights of the key components of ESG disclosure. ESG disclosure is a structured process, in which companies disclose information on their environmental, social and governance-related activities. As can be seen from the table, the most important would be transparency and ethical conduct, the board structure, audit practices, accountability and regulatory compliance, all with score 90% and the governance disclosure would be the highest.

Trust in the company's management and, ultimately, in the company's governance practices, the company's ability to build trust with its investors, regulators and stakeholders. Environmental disclosure is also of great importance and accounts for 88%. It includes information about carbon emissions, energy consumption, waste management, water conservation and climate-related practices. This demonstrates a company's attitude towards the environment and its role in sustainable development. Sustainability reporting (87%) offers structured data on sustainable business operation and stakeholder responsibility.

This is a reflection of the company's dedication to both business growth and environmental protection and social welfare. The Social disclosure rate is 85% and it is related to employee welfare, labour practices, workplace safety, gender diversity, customer responsibilities and community development. This is a component reflecting the company's attitude to people and society. Risk management disclosure (82%) represents the disclosures provided by companies related to the risks they may encounter in their business operations and financial stability arising from ESG. The table highlights that all five elements are crucial to delivering good ESG disclosure, which enables companies to enhance transparency, accountability, sustainability and stakeholder confidence. The initial major component of environmental disclosure is the disclosure of environmental information. It includes information on a company's environmental policies, how it utilizes resources, data on energy use, carbon emission figures, waste management, water management, pollution control measures, protecting biodiversity, climate change plan and environmental compliance (Gray et al., 1995).

The Companies are expected to report on the impact of their business operations on the natural environment and their action to mitigate any negative impact on the environment. The energy, cement manufacturing, steel, chemical, auto, textile, infrastructure, mining and manufacturing sectors are especially important as far as environmental disclosure because they use a lot of natural resources and have the potential for emissions or waste production.

Environmental disclosure allows companies to demonstrate their sustainable production, their use of renewable energy, their use of resources and their reduction of environmental risks. A company may be reporting on their GHG report, energy reduction projects, solar energy and projects, recycling programs, water treatment centres and waste reduction. Environmental disclosure is of financial relevance because environmental risks can directly impact businesses' performance (Al-Tuwaijri et al., 2004).

Image 1: *ESG Disclosure, Corporate Transparency and Financial Sustainability India Companies*

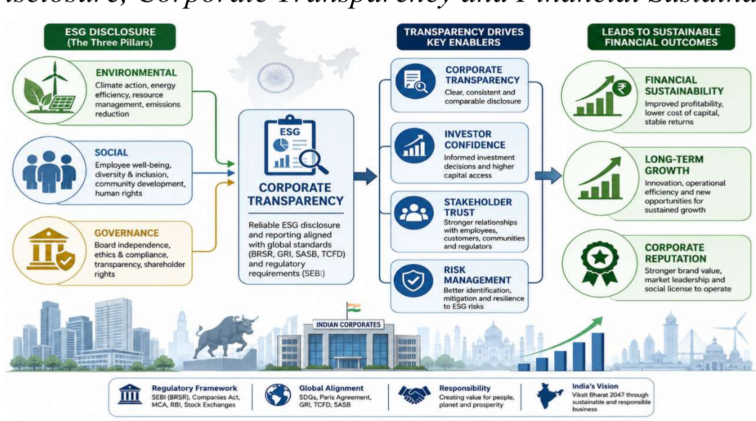


Image 1 shows the correlation between ESG disclosure, Corporate transparency and financial sustainability of companies in India. As can be seen the ESG disclosure is grounded on three pillars: Environmental, Social & Governance. Information about climate action, energy efficiency, waste management and emission reduction are included in the environmental disclosure. Social disclosure includes employee welfare, diversity and inclusion, community development and human rights. Governance disclosure covers board independence, ethics, compliance, transparency and rights of shareholders. These three pillars combine to give companies a transparent and responsible impression of their business activities. The image also reveals that the ESG disclosure enables corporate transparency by adhering to the global disclosure standards and reporting requirements like BRSR, GRI, SASB and TCFD (Cheng et al., 2014). If companies report on ESG correctly, it enhances the transparency of the companies, boosts investor confidence, builds better stakeholder engagement and assists with better risk management. Transparency in ESG reporting allows investors and stakeholders to gain insight into the company's efforts in managing its environmental, social and governance (ESG) matters. The last aspect of the image shows sustainability financial outcomes that happen when companies are transparent. It helps to achieve financial sustainability by increasing profitability, decreasing the cost of capital and providing stable returns. It also enables long-term growth via innovation, efficiency and market penetration. Furthermore, transparency through ESG can enhance the corporate reputation by boosting brand value and social trust. In conclusion, it is evident that the image of ESG disclosure is more than just a reporting requirement; it is a key instrument for enhancing transparency, investor trust, risk management and financial sustainability in Indian companies (Dhaliwal et al., 2011).

The second key element of ESG disclosure is social disclosure. It is defined as the information a company gives on its relationship with employees and workers, customers, suppliers, communities and society in general. It covers aspects like employee well-being, work rights, workplace safety, gender diversity, equal opportunity, human rights, training and development, customer satisfaction, product responsibility, data protection, community development, corporate social responsibility and social inclusion (Deegan, 2002). A company exists and relies on society, people, customers, communities, suppliers and public trust. Thus, its social behavior turns into a vital component of corporate assessment. Social disclosure indicates how a company values employees, conducts a safe workplace, promotes diversity and inclusion, cares for consumers' interests and makes a positive contribution to social development. It is also a reflection of the company's approach to complaints, the elimination of discrimination, community relations and ethical relations with stakeholders (Michelon et al., 2015).

The third of the three big pillars of ESG disclosure is governance disclosure. It covers the company's management structure, board of directors, ethics, transparency, accountability, shareholder rights, audit, risk management, executive compensation, internal control, regulatory compliance and anti-corruption policies (Jensen & Meckling, 1976). Governance disclosure reveals the direction, control, monitoring and accountability of a business. Good governance is critical for safeguarding the interests of shareholders and stakeholders. It provides transparency and ethics in corporate decision making. Governance disclosure enables stakeholders to assess the company's independent board, the audit system, fair decision-making in the company, risk control and responsible leadership. It also aids in determining if the business abides with the law, avoids conflicts of interest, defrauds investors and protects investor interests (Shleifer & Vishny, 1997).

ESG Disclosure – Non-Financial Reporting

Although the ESG disclosure does include information that goes beyond what is contained in traditional financial statements, it is generally regarded as a form of non-financial reporting. But that doesn't imply that ESG information isn't connected to finance. ESG disclosure is valuable information regarding risks, opportunities, company strategy and long-term value creation. There are a number of ESG factors that may not have a direct connection with the balance sheet or income statement but could impact profitability, cost structure, investor confidence, market value and future growth (Amel-Zadeh & Serafeim, 2018). For instance, a company's CO2 emissions do not necessarily impact its profit in the immediate term, but planned future environmental regulations could make the company's cost of compliance higher. Labour practices can have a delayed impact on financial statements, even if they do not seem to have immediate impact on the company's profitability. While weak governance could not necessarily have an immediate impact on revenue, it can have an impact on the risk of fraud, litigation and investor mistrust. Hence, ESG disclosure assists investors in recognizing the potential opportunities and risks that are not apparent in the financial statements (Grewal et al., 2019).

Transparency in the business context refers to the ability to deliver clear, reliable and relevant information to the stakeholders. ESG disclosure increases corporate transparency, enabling stakeholders to have a better sense of how company is dealing with the challenges around sustainability. A lack of transparency in ESG reporting creates information asymmetry between companies and investors. The term information asymmetry is used when management of a company has more information than shareholders and other stakeholders (Healy & Palepu, 2001). ESG disclosure helps to fill this gap by adding more detail to the information available on corporate behaviour, risk and long-term strategy. If the ESG information is disclosed in the correct way, then investors are better equipped to make investment decisions. They can compare and contrast businesses on productivity and profit, as well as on sustainability, ethics, responsibility and governance quality. This helps build investor confidence and promotes responsible investment. As a result, ESG disclosure has emerged as a significant element of corporate responsibility in today's world. The principles of ESG Disclosure and Stakeholder Theory. The concepts of ESG Disclosure and Stakeholder Theory (Freeman, 1984).

Investors need to pay attention to ESG Disclosure

ESG disclosure is very significant to investors as it allows them to assess the potential financial and non-financial risks. As investors make investment decisions, the information they have access to becomes more and more ESG.The information available to investors on choosing companies for investment becomes more and more ESG. Companies that have good ESG disclosure may look more responsible, stable and future oriented (Krueger et al., 2020). Institutional investors, foreign investors, mutual funds, pension funds and funds based on sustainability principles can be attracted by such companies. ESG disclosure is used by investors to see if a company faces environmental fines, labour strikes, governance issues, reputation damage, or regulatory issues. They also leverage ESG data to uncover companies that could be potential candidates for sustainability initiatives like renewable energy, green technology, ethical products, responsible finance, inclusive business models. Hence, ESG disclosure can aid in improved investment decision-making (Friede et al., 2015).

ESG Disclosure in Indian Companies

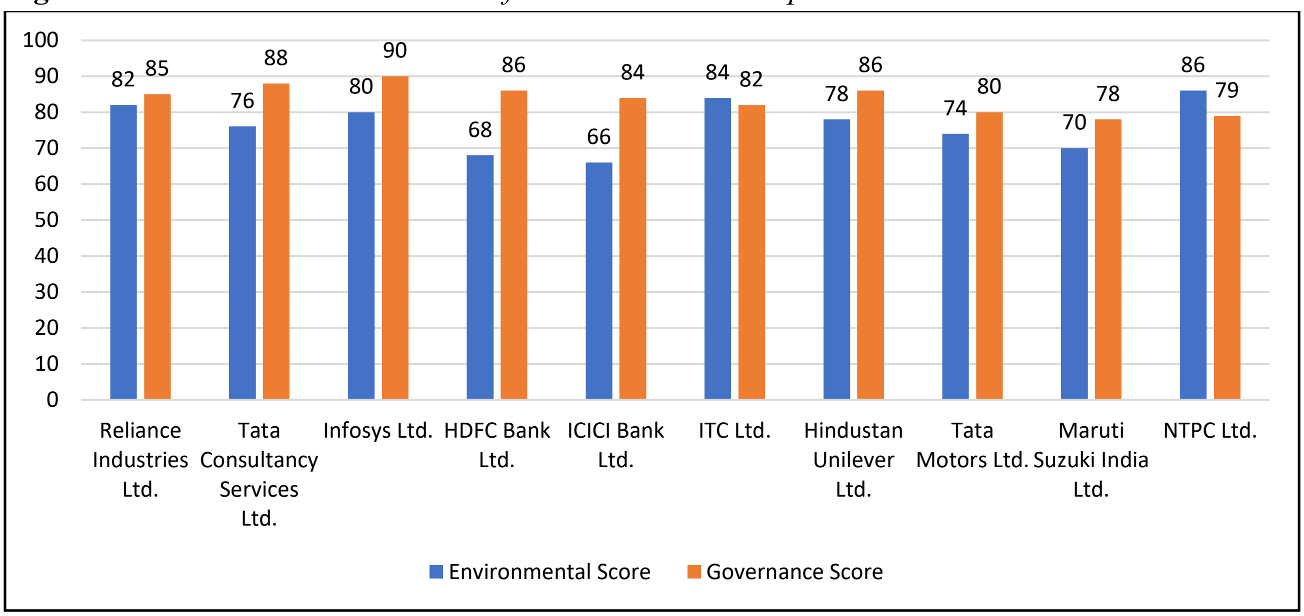
ESG disclosure in India is the process of disclosing information about the environmental, social and governance practices that business organizations are complying with in India. It defines the processes by which business organizations recognize, manage, measure and report their obligations to the environment, society, their employees, investors, regulators, consumers and others. In the corporate world, India, ESG disclosure is gaining significance as firms are increasingly required to reveal their financial results along with their ethical practices, social responsibility, environmental stewardship and governance practices. Previously, corporate reporting in India was primarily financial reporting which comprised of a balance sheet, profit and loss account, cash flow statement, revenue, profit, asset and liability and shareholder returns (Dayanandan et al., 2024). The range of reporting, however, has widened as the issues of sustainability have risen in importance, climate change risks have increased, corporate governance issues have become more pronounced, investor awareness around sustainability and global responsible investment have grown. Indian firms are now expected to disclose their usage of natural resources, their attitude towards their employees and workers, their attitude towards the consumers, their attitude towards their social responsibilities and how transparent they are governed. This transition has turned ESG disclosure into a critical gauge of corporate responsibility and sustainability in the long run (Garg et al., 2025).

The Securities and Exchange Board of India has ensured greater significance of the disclosure of ESG in India. The Business Responsibility and Sustainability Reporting framework for listed entities were introduced by SEBI in its circular dated 10th May 2021. BRSR framework was introduced for top 1000 companies by market cap from the financial year 2223 onwards. It was created to bring structure, measurability, transparency and comparison to ESG reporting, both within companies and between them and their different sectors (Rajan, 2025). BRSR aims to facilitate the disclosure of qualitative as well as quantitative information on business responsibility and sustainability by the listed companies in India. BRSR is an important development in ESG disclosure practices in India. It superseded the previous Business Responsibility Report (BRR) framework and also offered a more particular reporting format for sustainability reporting. BRSR includes disclosures on business profile, employees and workers, representation of women, differently abled employees, grievance redressal, stakeholder engagement, material sustainability issues, environmental impact, energy consumption and water consumption, waste management, GHGs, social responsibility, customer complaints, human rights, board composition, ethics and governance systems. This confirms that ESG disclosure in Indian companies is not just limited to general statements around social responsibility, but does provide them with measurable and comparable information on business conduct (Garg et al., 2025).

Table 2: *ESG Disclosure Indicators of Selected Indian Companies*

S. No.	Company Name	Environmental Score	Governance Score	Total ESG Score
1	Reliance Industries Ltd.	82	85	167
2	Tata Consultancy Services Ltd.	76	88	164
3	Infosys Ltd.	80	90	170
4	HDFC Bank Ltd.	68	86	154
5	ICICI Bank Ltd.	66	84	150
6	ITC Ltd.	84	82	166
7	Hindustan Unilever Ltd.	78	86	164
8	Tata Motors Ltd.	74	80	154
9	Maruti Suzuki India Ltd.	70	78	148
10	NTPC Ltd.	86	79	165

Figure 2: *ESG Disclosure Indicators of Selected Indian Companies*



Source: Table 2

The table presents the ESG disclosure indicators of selected Indian companies using two main scores: **Environmental Score** and **Governance Score.** The **Total ESG Score** is calculated by adding these two values. According to the table, **Infosys Ltd.** has the highest Total ESG Score of

170, showing strong environmental and governance disclosure. **Reliance Industries Ltd., ITC Ltd., NTPC Ltd., TCS** and **Hindustan Unilever Ltd.** also show strong ESG disclosure. **Maruti Suzuki India Ltd.** has the lowest Total ESG Score of **148** among the selected companies. Overall, the table indicates that ESG disclosure varies across Indian companies and sectors. Companies from information technology, FMCG, energy, banking, automobile and industrial sectors have different disclosure priorities. Energy and manufacturing-related companies tend to focus more on environmental disclosure, while IT and banking companies may show stronger governance disclosure (Velte, 2017). The table is useful for understanding how selected Indian companies disclose ESG-related information and how their environmental and governance practices contribute to their overall ESG disclosure position. It also provides a base for further analysis of whether companies with higher ESG disclosure scores perform better financially than companies with lower ESG disclosure scores.

Image 2: *ESG Disclosure and Financial Performance Indicators of Selected Indian Companies*

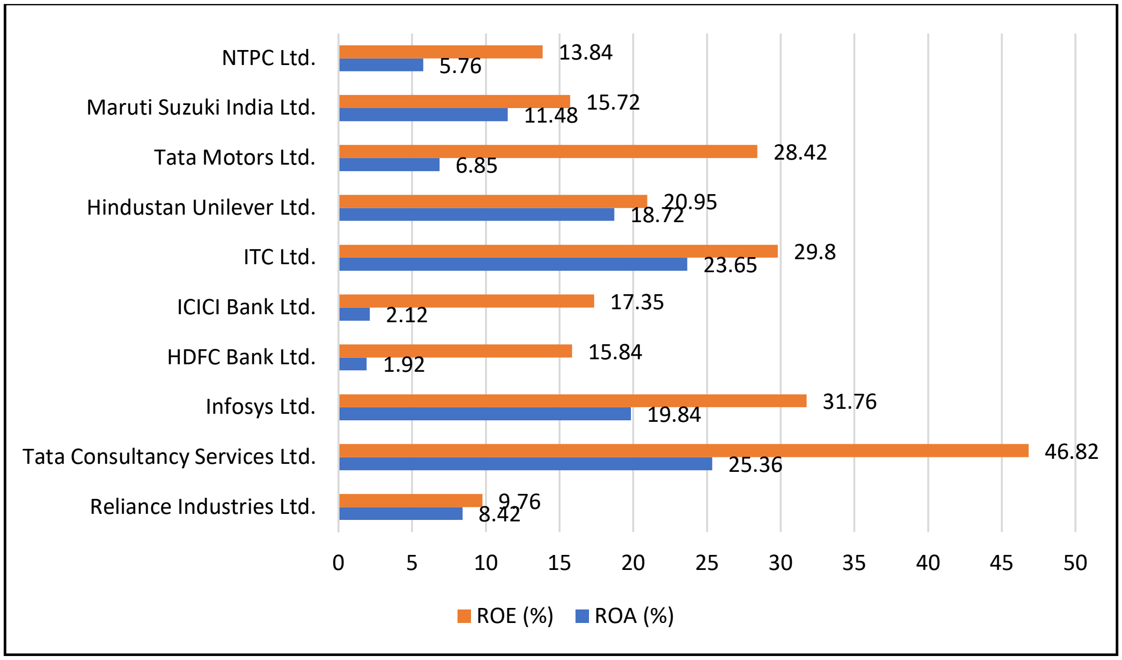
Financial Performance of Indian Companies

Financial performance is the capacity of a business to create value for shareholders, manage costs, be efficient with resources, sustain growth over time and have liquidity. It reveals the degree of efficiency a company generates with its assets, capital, labor, technology and business strategies. In the case of Indian companies, financial performance is a crucial gauge of a company's strength and can reveal the company's profitability, operational efficiency, market position, investment capacity and long-term sustainability. Profit is not the only determinant of financial performance. In one year, a company can achieve profit, but their overall financial performance may be poor because of high debt, weak cash flow, low asset efficiency, falling market value or weak return on investment (Venkatraman & Ramanujam, 1986). Thus, financial performance needs to be analyzed in terms of various financial indicators of the firm like ROA, ROE, NPM, EPS, Tobin's Q, market capitalisation, sales growth and debt-equity ratio. Such indicators help to determine if a business is healthy, competitive and has the potential to create value over time. It is observed that, financial performance in Indian companies is affected by various external and internal factors. Internal factors are management efficiency, capital structure, cost control, innovation, corporate governance, employee productivity and technology adoption and business strategy. External factors are the market competition, government policies, inflation, interest rates, exchange rate changes, consumer demand, regulatory environment, industry specific risks and global economic conditions. Indian companies are in a business environment that is dynamic and competitive, therefore, the financial performance of a company is affected by how well it adapts to these (Richard et al., 2009).

Table 3: *Financial Performance Indicators of Selected Indian Companies*

S. No.	Company Name	ROA (%)	ROE (%)	Total Financial Score
1	Reliance Industries Ltd.	8.42	9.76	18.18
2	Tata Consultancy Services Ltd.	25.36	46.82	72.18
3	Infosys Ltd.	19.84	31.76	51.6
4	HDFC Bank Ltd.	1.92	15.84	17.76
5	ICICI Bank Ltd.	2.12	17.35	19.47
6	ITC Ltd.	23.65	29.8	53.45
7	Hindustan Unilever Ltd.	18.72	20.95	39.67
8	Tata Motors Ltd.	6.85	28.42	35.27
9	Maruti Suzuki India Ltd.	11.48	15.72	27.2
10	NTPC Ltd.	5.76	13.84	19.6

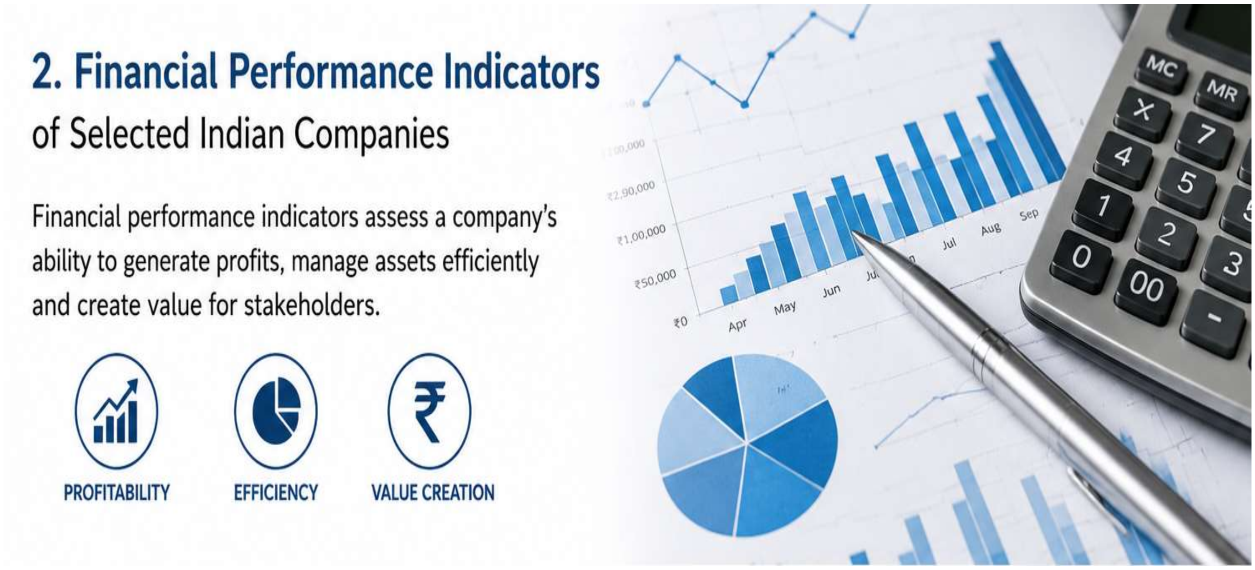
Figure 3: *Financial Performance Indicators of Selected Indian Companies*



Source: Table 3

The table shows the financial performance measures of selected Indian companies in terms of two important measures, namely, Return on Assets (ROA) and Return on Equity (ROE). ROA indicates the productivity of a company's assets in creating profit, whereas ROE indicates the productivity of the capital of shareholders in earning a return from a company. ROA is added to ROE to get the Total Financial Score. The table shows that Tata Consultancy Services Ltd. has a Total Financial Score of 72.18, which is very strong, followed by others. ITC Ltd. also has a good rating of 53.45 followed by Infosys Ltd. of 51.60. Other companies with moderate to strong financial performance include Hindustan Unilever Ltd., Tata Motors Ltd. and Maruti Suzuki India Ltd. However, in HDFC Bank Ltd., the Total Financial Score is the lowest at 17.76, primarily because its ROA value is not as high, but its ROE is. It can be seen from the overall table that there is a difference in performance in the financial aspect among the Indian companies. Companies that have higher ROA and ROE have better profitability and efficient use of resources, while companies that have lower scores have comparatively moderate financial performance.

Image 3: *Corporate Sustainability and Financial Performance Analysis of Indian Companies*



- **Profitability as a Measure of Financial Performance**

One of the most crucial dimensions of financial performance is profitability. It reflects the company's profitability derived from operations, assets, equity and sales. A financially healthy company is one that is profitable, meaning that it can expand, pay dividends to its shareholders, pay its debts, attract investors and compete successfully in the marketplace. Return on Assets is an important profitability indicator. It is the ratio of the company's profit to its overall assets. The higher the ROA, the more efficient the company is at using its resources. The ROA is helpful in comparing the companies of different industries in the Indian corporate sector as it indicates whether the companies are able to produce sufficient income from their investment or not. Another important measure of financial performance is Return on Equity (Brigham & Ehrhardt, 2017). It shows the profit generated on the equity of the shareholders. An ROE that is higher reflects the effective use of shareholders' money. ROE is a frequent measure used by investors to determine if a company can generate value for its shareholders. ROE can also be used to analyze whether companies that have better ESG disclosure are more profitable for shareholders in the field of ESG-related research. Net Profit Margin is another metric to assess profitability. It indicates the profit that a business makes from total revenue once all costs have been subtracted. By measuring net profit margin, it can show that the company is more cost effective, has more pricing power and is more efficient in its operations. Net profit margin is crucial for Indian businesses as several industries are highly competitive, with input costs and consumer demands also evolving (Penman, 2013).

- **Liquidity and Solvency**

Liquidity is another key measure of the financial performance. It is the capacity of a business to cover its immediate financial needs. A business should have enough funds or short term assets to cover the short term debts, including suppliers, employees, lenders, etc. A business can be earning a profit but still be in a financial bind if it isn't keeping adequate liquidity in check. The word Solvency is used in the long term financial stability of a company. It reveals if the company can pay its debts in the long term and operate going forward (Gitman & Zutter, 2015). Typically, solvency is expressed using debt-equity ratio, the interest coverage ratio and long-term debt measures.

Solvency is an important aspect in Indian companies, as many Indian companies rely on borrowed funds for expansion, infrastructure, technology and working capital. The company that has a high debt level can be put under pressure when the economy slows down, interest rates increase or there's a drop in income. That means profitability and financial stability must go hand-in-hand if you're going to achieve strong financial performance. Good governance is expected to result in better management of debt and financial discipline by companies (Ross et al., 2022).

- **Market-Based Financial Performance**

Market-based measures are other ways of assessing financial performance. These are the signs that will examine the worth and growth of a company as judged by investors and the stock exchange. Some of the market-based indicators are market capitalization, share price, stock returns, Tobin's Q and price-earnings ratio. Market capitalization indicates the value of all the stocks a company has issued. It gives investors confidence and market perception. A company that is profitable, clear of governance issues and has stable growth prospects could be a better choice for market valuation. Market-based indicators are significant in ESG research, as investors could potentially reward companies that share good ESG data. Another important market-based measure is the Tobin's Q. It is the comparison between market value of the company and the replacement value of the assets of the company (Damodaran, 2012). A higher Tobin's Q signifies that the market places a higher value on the company than on the sum of its physical assets and it could be due to high growth expectations, reputation, intangible assets, innovation and investor trust. A better reputation and lower perceived risk of the company caused by ESG disclosure may impact Tobin's Q. Earnings Per Share is also a financial performance indicator from the shareholders' point of view. It indicates the profit that each share of the company could generate. A positive EPS suggests increased profitability and can draw investors to the company. EPST should, however, be considered in conjunction with other indicators as it can also be impacted by capital structure and share buybacks and accounting policies (Lourenço et al., 2012).

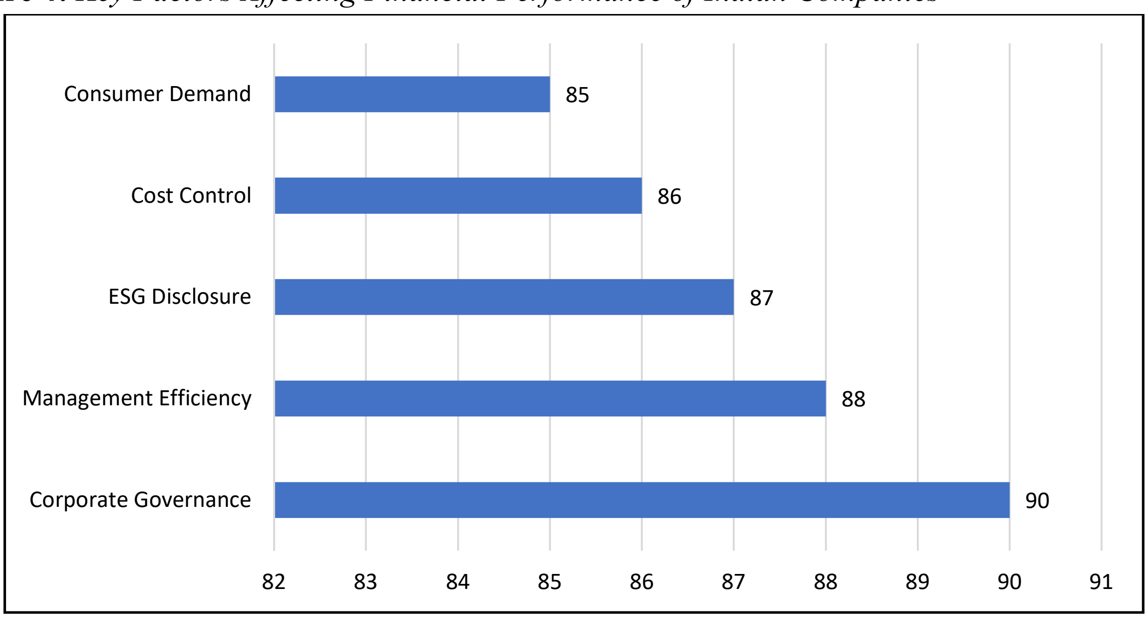
Financial Performance from Indian Corporate Perspective

Indian companies have to deal with a constantly evolving business landscape. The Indian corporate sector has undergone a radical transformation due to economic reforms, globalization, digitalization, foreign investments, regulatory changes and the growing demands for sustainability and changing preferences. Companies are no longer evaluated on their short-term profits. They are also evaluated on their responsibility in managing environmental risks, social responsibilities, governance systems, innovation and stakeholder relationship. The financial performance of various sectors in India is different. The IT firms may be very profitable as they are exporting their services, have a strong talent pool and low asset utilization (Ahluwalia, 2002). Banking and financial services companies depend on asset quality, credit growth, risk management and governance. Productivity of manufacturing firms relies on efficiency of production process, cost of raw materials, consumption of energy resources and demand in the markets. Industries like energy, cement, steel and infrastructure sectors need high capital investment and are more impacted by environmental regulations and resource costs. Thus, the financial performance needs to be interpreted in the light of the industry. In India, financial performance also has a close relationship with investors' trust. A company that is transparent, has good governance, good business practice and a consistent profit is more likely to gain domestic and foreign investors. This process can be affected by the disclosure of ESG, as it gives more information on long-term risks and sustainability practices. ESG-compliant firms are likely to perform their risk management more effectively, making them a more trustworthy investment (Jo & Na, 2012).

Table 4: *Key Factors Affecting Financial Performance of Indian Companies*

S. No.	Key Factor	Explanation	Impact Value (%)
1	Corporate Governance	Strong governance improves transparency, accountability and investor confidence.	90
2	Management Efficiency	Efficient management helps in better decision-making, cost control and profit growth.	88
3	ESG Disclosure	ESG disclosure strengthens corporate image, stakeholder trust and long-term sustainability.	87
4	Cost Control	Effective cost control increases profit margin and improves financial stability.	86
5	Consumer Demand	Higher consumer demand increases sales, revenue and overall business growth.	85

Figure 4: *Key Factors Affecting Financial Performance of Indian Companies*



Source: Table 4

The key factors that affect the financial performance of Indian companies are explained in Table 4. The value of the impact of corporate governance is the highest 90% suggesting that good governance has a very high impact on improving financial performance. Good governance ensures transparency, accountability, ethical practices and investor confidence. Good company governance practices create greater investor and stakeholder trust and help businesses grow and financial stability. Another crucial aspect is management efficiency, which has an impact value of 88%. By adopting efficient management, businesses can make more informed decisions, manage costs effectively, utilize resources optimally and boost profitability. A firm with good management can react to changes in the market quickly and it can enhance productivity (Bhagat & Bolton, 2008). ESG disclosure is another positive financial performance driver with an impact value of 87%. It enhances corporate image, builds stakeholder's confidence and helps sustainable development. ESG disclosure companies are considered more responsible and reliable businesses. Its impact value is 86% showing its importance in cost control and improving profit margins and financial stability. Companies can boost their profits by cutting down on unnecessary costs and controlling the cost of operations. Consumer demand has a significant impact on sales, revenue and business growth with a value of 85%. An increase in demand for products/services allows companies to boost revenue and improve financial performance. In general, the table highlights that corporate governance, management efficiency and ESG disclosure, along with cost control and consumer demand, all play a role in the financial performance and long-term growth of Indian companies (Gompers et al., 2003).

Discussion

The analysis indicates that in India, the disclosure of ESG has become an important segment of corporate reporting. Companies aren't only required to report on their financial performance, but also their environmental responsibility, social accountability and governance transparency. The study reveals that the IT services major Infosys Ltd. has the best overall ESG score, implying that the company has good disclosure in the environmental and governance segment. Strong ESG disclosure can also be observed for the following companies: Reliance Industries Ltd., ITC Ltd., NTPC Ltd., Tata Consultancy Services Ltd. and Hindustan Unilever Ltd. However, from a financial performance perspective, Tata Consultancy Services Ltd. has the highest overall financial score followed by ITC Ltd. and Infosys Ltd. It means that companies that do a better job of disclosing their activities under the three pillars of sustainability (ESG) may also demonstrate positive financial results, but not necessarily in a direct manner. Other factors, such as sector type, asset structure, capital efficiency, market conditions, cost control and management strategy, also influence financial performance. Thus, ESG disclosure can serve as transparency, reputation and investor confidence but profitability can rely on a few financial and operational parameters.

Conclusion

The present study reveals that disclosure of ESG has also gained significance in the corporate responsibility, transparency and sustainability of Indian companies. The current business environment is not decided on the basis of profitability, assets, equity or revenue or market value of the business. The company is also under the microscope of investors and stakeholders regarding environmental risk management, social responsibilities, governance, ethics and stakeholder relations. So, the shedding light on ESG has now become a direct connection to the corporate image, investor trust, market reputation and sustainable financial development. The empirical analysis of ESG disclosure of the selected Indian companies shows that there is a difference between the sectors. Infosys Ltd. has the highest total ESG score followed by Reliance Industries Ltd., ITC Ltd., NTPC Ltd., Tata Consultancy Services Ltd. and Hindustan Unilever Ltd. This indicates that companies with good quality environmental and governance disclosures are more transparent in their communications regarding sustainability practices. Financial performance indicators, however, indicate that Tata Consultancy Services Ltd. had the best financial score followed by ITC Ltd. and Infosys Ltd. This means that firms with better ESG that disclose their ESG should have good financial performance, which is not always the case. The study overall concludes that the disclosure of ESG has positive effects on corporate transparency, risk management, the quality of the corporate governance and stakeholder trust. The potential benefit of ESG practices on improving the company's image, lowering business risk, raising investors' confidence and guaranteeing long-term financial stability. There is a clear connection between disclosure of ESG and financial performance, but not a direct one, because other factors can affect profits, such as the type of a company's business, its capital mix, sector, the market environment, its efficiency with capital and its management policies. Indian companies are now looking to enhance their ESG reporting efforts to make sure they are not just complying with regulations, but also using them as a strategic tool to drive sustainable growth and value creation.

Reference:

1. Alareeni, B. A., & Hamdan, A. (2020). ESG impact on performance of US S&P 500-listed firms. *Corporate Governance, 20*(7), 1409-1428.
2. Aouadi, A., & Marsat, S. (2018). Do ESG controversies matter for firm value? Evidence from international data. *Journal of Business Ethics, 151*(4), 1027-1047.
3. Barnett, M. L., & Salomon, R. M. (2012). Does it pay to be really good? Addressing the shape of the relationship between social and financial performance. *Strategic Management Journal, 33*(11), 1304-1320.
4. Boffo, R., & Patalano, R. (2020). *ESG investing: Practices, progress and challenges*. Organisation for Economic Co-operation and Development.
5. Buallay, A. (2019). Is sustainability reporting associated with performance? Evidence from the European banking sector. *Management of Environmental Quality, 30*(1), 98-115.
6. Clarkson, P. M., Li, Y., Richardson, G. D., & Vasvari, F. P. (2008). Revisiting the relation between environmental performance and environmental disclosure. *Accounting, Organizations and Society, 33*(4-5), 303-327.
7. Dalal, K. K., & Thaker, N. (2019). ESG and corporate financial performance: A panel study of Indian companies. *The IUP Journal of Corporate Governance, 18*(1), 44-59.
8. De Lucia, C., Pazienza, P., & Bartlett, M. (2020). Does good ESG lead to better financial performances by firms? Machine learning and logistic regression models of public enterprises in Europe. *Sustainability, 12*(13), 5317.

9. Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary non-financial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *The Accounting Review, 86*(1), 59-100.
10. Duque-Grisales, E., & Aguilera-Caracuel, J. (2021). Environmental, social and governance scores and financial performance of multilatinas: Moderating effects of geographic international diversification and financial slack. *Journal of Business Ethics, 168*(2), 315-334.
11. Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. *Management Science, 60*(11), 2835-2857.
12. Elkington, J. (1997). *Cannibals with forks: The triple bottom line of 21st century business*. Capstone Publishing.
13. Fatemi, A., Glaum, M., & Kaiser, S. (2018). ESG performance and firm value: The moderating role of disclosure. *Global Finance Journal, 38*, 45-64.
14. Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman Publishing.
15. Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment, 5*(4), 210-233.
16. Global Reporting Initiative. (2021). *GRI standards*. Global Reporting Initiative.
17. International Sustainability Standards Board. (2023). *IFRS S1 general requirements for disclosure of sustainability-related financial information*. IFRS Foundation.
18. International Sustainability Standards Board. (2023). *IFRS S2 climate-related disclosures*. IFRS Foundation.
19. Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.
20. Kalia, D., & Aggarwal, D. (2023). Examining impact of ESG score on financial performance of healthcare companies. *Journal of Global Responsibility, 14*(1), 155-176.
21. Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. *The Accounting Review, 91*(6), 1697-1724.
22. Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies, 24*(3), 403-441.
23. Securities and Exchange Board of India. (2021). *Business responsibility and sustainability reporting by listed entities*. SEBI Circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562.
24. Shobhwani, K., & Lodha, S. (2024). Impact of ESG disclosure scores on financial, operating and market-based performance: Evidence from NSE-100 companies. *NMIMS Management Review, 32*(3), 211-223.
25. Velte, P. (2017). Does ESG performance have an impact on financial performance? Evidence from Germany. *Journal of Global Responsibility, 8*(2), 169-178.