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COMPREHENDING THE INVESTMENT DYNAMICS FOR ESG MUTUAL FUNDS IN INDIA

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Abstract

Traditionally, individual and institutional investors have invested in the markets to earn profits and windfall gains. However, as times change, investors demand better disclosure and transparent reporting on financial and non-financial issues, such as sustainability and governance. ESG mutual funds have been introduced in the Indian financial market to provide ESG-compliant investing for investors. Currently, 10 ESG mutual funds are operational in the Indian market, investing in ESG-compliant corporate securities.

The research has attempted to comprehend the dynamics of these Indian mutual funds in terms of risk, returns, and ESG investments. An analysis of the ESG funds under study reveals that the SBI ESG fund most closely aligns with ESG scores when investing. Quant and ICICI have high returns, but their investments are not ESG-compliant. The results of this study shall support investors, mutual funds, corporations, and regulators in understanding the returns, risks, and investment profiles of ESG funds, thereby helping them chart their future operations and investments in a sustainable manner.

Keywords: *ESG, Mutual Funds, India, Investment Dynamics, ESG Scores*

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INTRODUCTION

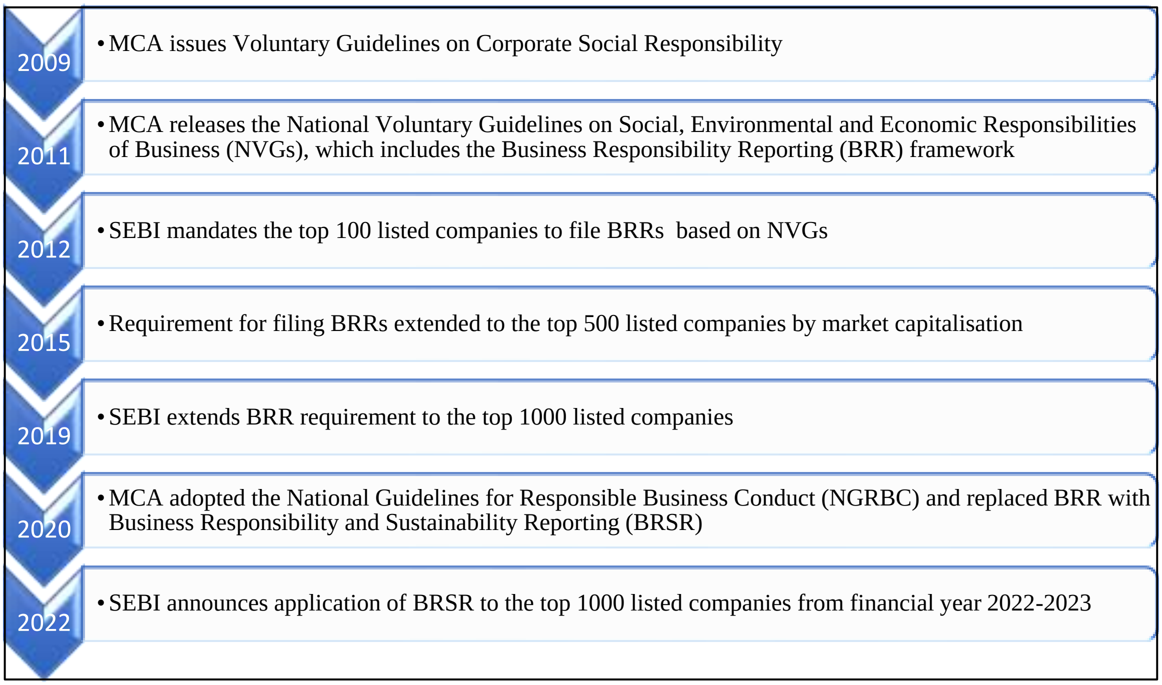
Investments play a pivotal role in a nation's economy. They channel investors' savings to productive users of these funds. Traditionally, investors are inclined to invest in options with the highest returns and risk, depending on their risk tolerance. Investor sentiments (Chen et al., 2021) are driven by the ongoing changes in the economic and non-economic sectors (Sachdeva et al., 2022; Sharma et al., 2023; Kamath et al., 2023), affecting the stock markets and the economy (Zhou, 2023; Haritha & Uchil, 2020).

Indian individual investors have long favored conservative investments, primarily in immovable property and precious metals (Amicuzi, 2024). The establishment of stock exchanges in the late 19th century led to the development of an Indian capital market, providing access to a few wealthy investors. Post-independence, the government prioritized agriculture over industries to provide food for the population and materials for the existing industries. Industrialization was limited and carried out mainly by the government-backed public sector and a restricted private sector. The private sector primarily comprised a few Indian businesses and multinational corporations (MNCs). Foreign capital supplemented domestic savings while providing the necessary technical know-how. Consequently, during the fifties and sixties, MNCs established a significant presence in consumer and producer goods, as well as in core industries (Goyal, 1981). These MNCs were profit-motivated entities with monopolistic advantages and frequently engaged in restrictive trade practices. These restrictive trade tactics include limiting output, deterring local businesses from competing, and charging unfair prices. MNC operations also affected the Indian balance of payments (Kumar, 1982). The Indian government undertook various policy measures and enacted laws such as the Monopolies and Restrictive Trade Practices Act (MRTP) in 1969 and the Foreign Exchange Regulation Act (FERA) in 1973 to limit the operations of MNCs. As a result of these policy measures and enactments, various MNCs had to dilute their foreign equity by offering fresh equity to Indian investors. This dilution opened the gates to domestic equity investors and led to greater domestic ownership of foreign companies (Encarnation & Vachani, 1985). Consequently, more domestic institutional and individual investors participated in the Indian equity markets.

The 1991 liberalization policy dismantled restrictions on production capacity and investment. This led to further investment in the Indian economy and to the establishment of the Securities and Exchange Board of India (SEBI) in 1992 to regulate and maintain market integrity while protecting investor interests and trust. Since then, SEBI has introduced various regulations and guidelines to foster good governance, thwart market manipulation, and boost investor confidence.

Traditionally, individual and institutional investors have invested in the markets to earn profits and windfall gains. Over time, shocks and scams led investors to demand better disclosure and transparent reporting on financial and non-financial issues, such as sustainability and governance. The Ministry of Corporate Affairs (MCA) and the SEBI have been instrumental in adopting guidelines for reporting on the environmental, Social, and Governance (ESG) perspectives of Indian corporations. The evolution of the ESG reporting framework in India is briefly presented in Figure 1.

Figure 1: Evolution of the ESG reporting framework in India



Source: SEBI (2015 and 2021)

After liberalization and the expansion of the Indian economy, the investor base broadened. Individual investors started investing directly and via mutual funds. To meet investors' evolving demands and aspirations, asset management companies (AMCs) began offering a range of fund options aligned with changing market conditions. One such fund option is the ESG-themed mutual fund. State Bank of India (SBI) Funds Management was the first AMC to offer a fund that invested in companies following the ESG theme. Later, many AMCs launched similar funds that considered corporations' ESG initiatives when making investment decisions.

The current research aims to conduct a comprehensive analysis of ESG mutual funds in India. Towards this end, the introduction section is followed by a literature review. The data and methodology are discussed in the third section, followed by the data analysis. The last section presents the conclusion drawn from the study of ESG mutual funds.

LITERATURE REVIEW

Investments and investors have been of interest to policymakers, regulatory bodies, corporations, and academicians. The existing literature primarily addresses investment decision-making, guiding principles, investment patterns, and changes. Investments in India have been dynamic & diverse and influenced by economic conditions, technological advances, and regulatory changes.

Individuals have been investing in equity markets through both traditional and alternative channels. Mittal (2016) and Panpaliya, Bajaj, & Mishra (2020) identified bank deposits, bonds, shares, money market instruments, mutual funds, precious metals, and real estate as conventional investment routes for investors. On the other hand, Sodani (2023) and Kiran Kumar & Krishnan (2023) identified private equity, hedge funds, real estate, and commodities as alternative investment avenues. Investors use alternatives alongside traditional options to achieve portfolio diversification, improve returns, and reduce risk (Roy, 2024; Vorobyev & Schmitz, 2022; Edwards & Ghosh, 2020).

Various intrinsic and extrinsic factors motivate individuals to undertake investments. Personal goals, such as applying financial knowledge for financial independence and well-being, play a significant role in investment decisions. Studies have shown that individuals with strong intrinsic motivation invest to achieve their personal goals and thus tend to take a greater interest in investment activities (Purnamasari et al., 2021; Suparno et al., 2024). This intrinsic motivation is particularly evident among young investors, who exhibit higher risk tolerance and regard investment as a significant source of future financial security and personal growth (Thomas et al., 2024). Similar results have been reported for Polish investors (Xie et al., 2023).

Risk tolerance and time horizon significantly affect investment choices. Retail investors with low-risk appetites seek confirmatory returns while preserving capital and tend to invest in safer options (Miranda, 2023; Bhattacharjee et al., 2024). Research has further indicated that internationally diversified portfolios are more resilient than purely domestic holdings (Raju, 2023). Investors willing to hold their investments longer tend to take on riskier investments, which can lead to better returns, while short-term investors prioritize liquidity. Irrespective of investment time horizon, Indian investors prioritize investment safety over returns (Kannadas, 2021).
Societal norms, peer pressure, and the perceived success of others in investment endeavors are among the extrinsic motivations that influence investment decisions. Overconfidence, herding, and regret aversion were identified as positive influencers of investment (Ganavi & Shakila, 2024). Indian investors are highly influenced by social pressure (Raut, 2020; Akhtar & Das, 2019) and tend to invest to replicate the financial well-being of peers and to further their wealth accumulation to conform to societal expectations (Singh & Chakraborty, 2024). Recency, familiarity, confirmation (Mohanty et al., 2024), and overconfidence bias (Prosad et al., 2015) have emerged as significant biases in equity investments. Availability and representativeness biases have played a significant role in investing in initial public offerings (Singh & Kumar, 2022).
Besides actively investing in shares, either directly or through agents, Indian investors are increasingly inclined to invest passively in the stock market via mutual funds. This investment option is usually preferred by small investors with limited investment knowledge who are interested in professionally managed, diversified portfolios at a lower cost (Sharma et al., 2016; Mehta & Kaur, 2018). While investing in mutual funds, individual investors consider fund characteristics, past performance, the fund manager's experience, and the fund's risk and return dimensions (Sharma, 2022; Singal & Manrai, 2018). Apart from these factors, investors also consider transparency (Rani & Jora, 2022) and the innovativeness of the fund offerings and the ratings provided by agencies like CRISIL, CARE, and ICRA (Yadav & Joshi, 2017).
Today's investors are not only investing in options that offer the highest returns but also considering those that prioritize various stakeholders. Corporate ESG initiatives influence investors worldwide, and Indian investors are no exception. Portfolios comprising socially responsible stocks have performed better than their peers during a crisis despite having higher systematic risk (Tripathi & Bhandari, Socially responsible stocks: a boon for investors in India, 2015). The authors also showed that during and after the crisis, the ESG and GREENEX indices outperformed NIFTY and SENSEX. Similar findings were reported by Yadav et al. (2024) for non-financial firms, revealing a positive relationship between ESG scores and stock returns, both with and without control variables, during the recent pandemic. Beloskar and Rao (2022) studied the performance of ESG-rated firms on the Bombay Stock Exchange (BSE). They demonstrated that the presence of such stocks reduces portfolio volatility and provides downside protection during the crisis. Similar results were reported by Deshmukh et al. (2022) for crises such as the U.S. Debt Ceiling Crisis in 2011-12, Black Monday in China, BREXIT, Demonetization in 2015-16, and COVID-19.
Given the growing importance of ESG investors' focus on maximizing stakeholder value, AMCs in India launched ESG-themed funds. These funds have been operational for quite some time now, but research on them is in its infancy. The present research aims to comprehend the investment dynamics of these ESG funds in the Indian financial markets.
This comprehension of ESG mutual funds will extend the research on investments and mutual funds in India. The study will have important implications for current investors who want to check whether their savings are being invested right and responsibly. Additionally, investors can identify and select the optimal sustainable investment option. This research will augment prospective investors' efforts to find ESG mutual funds that meet their requirements.AMCs, too, can benefit from this research by identifying and adopting the nuances of portfolio mix and strategies of well-performing ESG mutual funds in India.

DATA AND METHODOLOGY

Mutual funds in India were established in 1963, when the Unit Trust of India (UTI) was established by an act of parliament. State Bank of India was the first public sector fund to begin operations in 1987, followed by various other public sector entities. With the entry of private-sector funds after liberalization in 1993, the mutual funds space witnessed a variety of investment options. On 31st October 2024, the industry's Assets Under Management (AUM) stood at INR67.26 trillion, rising from INR26.33 trillion in two years. Today, there are 21.65 crores active mutual fund folios, with the maximum number of folios under equity, hybrid, and solution-oriented schemes (AMFI, 2024).
These mutual funds offer direct (self) or regular (via registered investment advisors) investment options. Investors can choose a growth or income distribution cum capital withdrawal option (IDCW) while choosing lump sum or systematic investment plans (SIPs) for their investments. The SEBI (Mutual Funds) regulations govern all mutual fund operations to ensure market integrity, transparency, and investor protection.
AMCs have been instrumental in providing fund offerings commensurate with industry and investment requirements. These offerings have allowed investors to increase their participation in the securities market and earn competitive returns. These offerings could be thematic or sectoral, or index-based. While sectoral/theme-based mutual funds invest in stocks of a specific sector or that fit a specific theme, index-based funds track and match the performance of a market index.
At present, 54 AMCs (SEBI, Registered Mutual Funds, 2026) are registered with SEBI that offer mutual funds to suit investors' dynamic requirements. One such offering is ESG mutual funds, which cater to investors interested in sustainably protecting both the present and

the future. These investors are inclined to invest in responsible companies undertaking ESG initiatives to benefit multiple stakeholders. The ESG initiatives comprise three factors, as shown in Figure 2.

Figure 2: Composition of ESG initiatives

Environmental (E)	Social (S)	Governance (G)
• Energy efficient	• Customer satisfaction	• Board composition
• Animal protection	• Gender equality	• Political contributions
• Biodiversity	• Diversity	• Financial audits
• Waste management	• Labour rights	
• Pollution levels	• Human rights	

Source: Mutual Funds Sahi Hai (2024)

Ten mutual funds currently operate on the ESG theme, as detailed in Table I.

Table I: AMCs and their ESG funds with launch dates

AMC	Scheme name	Launch date
Aditya Birla Sun Life Asset Management Company Limited	Aditya Birla Sun Life ESG Integration Strategy Fund (ABSL)	4-Dec-20
Axis Asset Management Company Limited	Axis ESG Integration Strategy Fund (Axis)	22-Jan-20
ICICI Prudential Asset Management Company Limited	ICICI Prudential ESG Exclusionary Strategy Fund (ICICI)	21-Sep-20
Invesco Asset Management (India) Private Limited	Invesco India ESG Integration Strategy Fund (Invesco)	26-Feb-21
Kotak Mahindra Asset Management Company Limited	Kotak ESG Exclusionary Strategy Fund (Kotak)	20-Nov-20
Mirae Asset Investment Managers (India) Private Limited	Mirae Asset Nifty 100 ESG Sector Leaders Fund of Fund (Mirae ESG)	27-Oct-20
quant Money Managers Limited	quant ESG Equity Fund (Quant)	15-Oct-20
Quantum Asset Management Company Private Limited	Quantum ESG Best in Class Strategy Fund (Quantum)	21-Jun-19
SBI Funds Management Limited	SBI ESG Exclusionary Strategy Fund (SBI)	27-Nov-06
WhiteOak Capital Asset Management Limited	WhiteOak Capital ESG Best-In-Class Strategy Fund (WhiteOak ESG)	11-Oct-24

Source: Morningstar.in (2024) and Moneycontrol.com (2024)

As shown in Table 1, ESG funds have risen since 2020, and SBI is the first AMC to offer a mutual fund in this category. A purposive sampling approach was used in this study, in which eight ESG-themed mutual funds with at least 3 years of operational history were selected. As a result, WhiteOak ESG, launched in October 2024, is not included in the study. Another fund, Mirae ESG, is also excluded from this research because it is a domestic fund of funds that does not directly invest in individual corporate stocks but invests through Exchange Traded Funds (ETFs) (Mirrae Asset Mutual Fund, 2026). Direct returns from lump-sum investments have served as the criteria for evaluating the selected eight funds. Details about these mutual funds have been sourced from public domain secondary sources, such as Morningstar, Moneycontrol, and individual AMC websites. These websites are widely recognized as sources of financial information and are trusted by investors, analysts, and regulators, thereby ensuring high credibility and authenticity (Vasantha & Narmadha, 2025; Majumder, et al., 2025; Chen & Lim, 2024; Ruhela & Trivedi, 2021). ESG scores have been sourced from ESG Risk Assessments and Insights[1]. The use of secondary data provided access to readily available data, yet there were a few caveats. There was limited access to the adopted methodology, data completeness, and data accuracy. There may be inherent differences in variable definitions, data presentation purposes, update cycles, etc. Despite these shortcomings, data were sourced from various avenues, as no single platform provided comprehensive coverage of all fund characteristics. Moreover, using multiple data sources mitigated the source-specific biases inherent in each source's methodology. This approach is consistent with Creswell(2018) Saunders, et al., (2023) and strengthens the methodological

[1] A SEBI registered category 1 ESG rating provider. Details can be accessed at https://esgrisk.ai/

approach, providing credibility to the research findings. Adopting a descriptive cum exploratory approach, this study shall attempt to comprehend the investment dynamics of the chosen ESG mutual funds.

DATA ANALYSIS

ESG mutual funds in India are prominent in the mutual fund landscape. These funds enable investors to support corporations that align with their vision of sustainability and stakeholder values. This section will comprehensively assess the selected ESG mutual funds and their risk and return positions. Additionally, it will include the sector and ESG-wise composition of these funds.

Overview

In India, the selected eight ESG mutual funds aggregate to a fund size of INR 11942.02 crores. Table II exhibits a brief overview of individual fund sizes.

Table II: Overview of ESG mutual funds

ESG mutual fund	Fund Size (INR crores)	Market capitalization (INR crores)	NAV (INR)	Investment in category	Expense ratio
ABSL	733.74	131823.88	17.68	0.16%	2.40%
Axis	1445.59	104029.95	21.42	0.31%	2.19%
ICICI	1651.95	101311.30	22.02	0.36%	2.12%
Invesco	547.26	106889.11	18.02	0.12%	2.41%
Kotak	1023.3	127155.83	16.87	0.22%	2.21%
Quant	333.98	101440.15	34.75	0.07%	2.39%
Quantum	94.6	77821.25	24.06	0.02%	2.10%
SBI	6111.6	172584.77	257.37	1.31%	1.29%

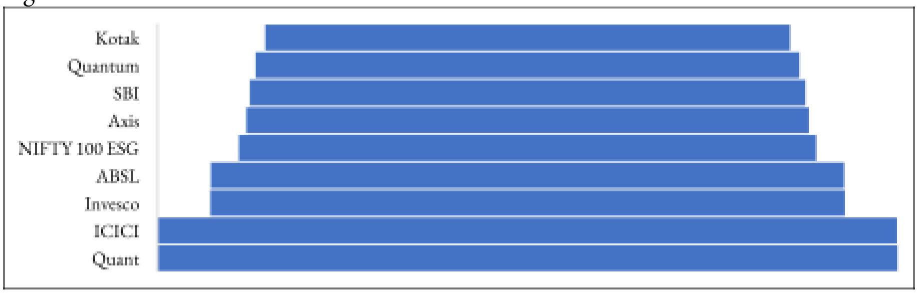
Source: Moneycontrol.com (2024)

Table II shows that the oldest ESG fund, SBI, has the largest fund size, while Quantum has the smallest. The same holds for market capitalization. Besides this, SBI leads other mutual funds in Net Asset Value (NAV), followed by Quant. It is also worth noting that the minimum investment in the ESG category is by Quantum AMC (0.02%), while the maximum contribution is by SBI AMC (1.31%). It is further noted that SBI has the lowest expense ratio, while all other mutual funds exceed the category average of 2.06%.

Return and risk

The NIFTY 100 ESG index reflects the performance of companies within the NIFTY 100 index based on their ESG scores. In this index, the weight of each constituent is determined by the company's free-float market capitalization and modified ESG risk score (NSE Indices, 2024). As such, this NIFTY 100 ESG index represents the returns of ESG-compliant companies. The returns of the ESG funds over one year were benchmarked against the one-year returns of the NIFTY 100 ESG index, as shown in Figure 3.

Figure 3: Returns of ESG mutual funds and NIFTY 100 ESG



Source: Moneycontrol.com (2024)

Figure 3 shows that ABSL, Invesco, ICICI, and Quant funds outperform the benchmark NIFTY 100 ESG, while Axis, SBI, Quantum, and Kotak lag it. After reviewing the mutual funds' returns, it is necessary to assess their stability. For this, the funds' standard deviation and Beta are captured and compared with their category averages. These values will be particularly useful for investors in assessing return consistency and building a diversified portfolio that meets their requirements. These comparisons are presented in Table III.

Table III: Standard deviation and Beta of ESG mutual funds

ESG mutual fund	Standard deviation*	Beta
ABSL	14.48	0.93

Axis	12.98	0.78
ICICI	12.21	0.76
Invesco	13.74	0.88
Kotak	14.25	0.93
Quant	17.85	1.02
Quantum	12.82	0.84
SBI	13.71	0.9

* Category average for standard deviation is 15.23
** Category average for Beta is 0.85
Source: Moneycontrol.com (2024)

Standard deviation, a statistical measure of dispersion, measures the deviation of fund returns from their average. Beta, however, measures the fund's volatility with its benchmark. An analysis of the values in Table III reveals that Quant's standard deviation exceeds the benchmark, indicating highly volatile returns. At the same time, all the other mutual funds have shown low volatility. However, Beta for ICICI, Axis, and Quantum has been lower than the category average.
After assessing the funds' returns and risks separately, it is imperative to measure the mutual funds' portfolio performance as a single metric. Sharpe, Treynor, and Jensen's Alpha ratios are used for this. While the Sharpe ratio measures an investment's return relative to the risk it takes on, the Treynor ratio indicates whether a fund's returns are commensurate with the risk it takes on. Jensen's Alpha measures the fund's risk-adjusted performance relative to its benchmark; a positive Alpha signals outperformance, and a negative Alpha indicates underperformance. Sharpe, Treynor, and Jensen's Alpha for the ESG mutual funds under study are shown in Table IV.

Table IV: Sharpe, Treynor, and Jensen's Alpha for ESG mutual funds

ESG mutual fund	Sharpe ratio*	Treynor ratio	Jensen's Alpha
ABSL	0.19	0.03	-2.27
Axis	0.18	0.03	-1.89
ICICI	0.79	0.13	5.53
Invesco	0.34	0.05	-0.14
Kotak	0.34	0.05	-0.24
Quant	0.94	0.17	11.38
Quantum	0.43	0.07	0.98
SBI	0.38	0.06	0.3

* Category average for Sharpe ratio is 0.76
** Category average for Treynor ratio is 0.03
*** Category average for Jensen's Alpha is 4.24
Source: moneycontrol.com (2024)

The Sharpe ratios in Table IV indicate that all the mutual funds except ICICI and Quant are delivering poor risk-adjusted returns, as their Sharpe ratios are below the category average. Likewise, the Treynor ratio reveals poor risk-adjusted returns for all ESG mutual funds except Quant, whose Treynor ratio exceeds the category average. Jensen's Alpha is positive for ICICI, Quant, Quantum, and SBI but negative for the remaining ESG mutual funds. The results further indicate that Quant and ICICI outperform the category average, suggesting overperformance.

Investment composition and ESG compliance of mutual funds
After gaining insights into the risk-return performance of ESG mutual funds, an inquiry into the composition and nature of corpus funds' investments is inevitable. This exercise will facilitate understanding of the structure and preferred investment areas of ESG mutual funds. The results will also indicate whether these mutual funds are considering the ESG scores of their investments.

Table V: Composition of ESG mutual fund investments

		Holdings				
ESG mutual fund	Number of stocks	Domestic equity	F & O	Foreign equity	Total equity	Others
ABSL	49	96.90%	0.00%	0.00%	96.90%	3.10%
Axis	84	86.72%	0.00%	9.64%	96.36%	3.63%
ICICI	48	93.87%	0.00%	3.61%	97.48%	2.52%
Invesco	38	97.79%	0.00%	0.00%	97.79%	2.21%
Kotak	42	99.70%	0.00%	0.00%	99.70%	0.70%

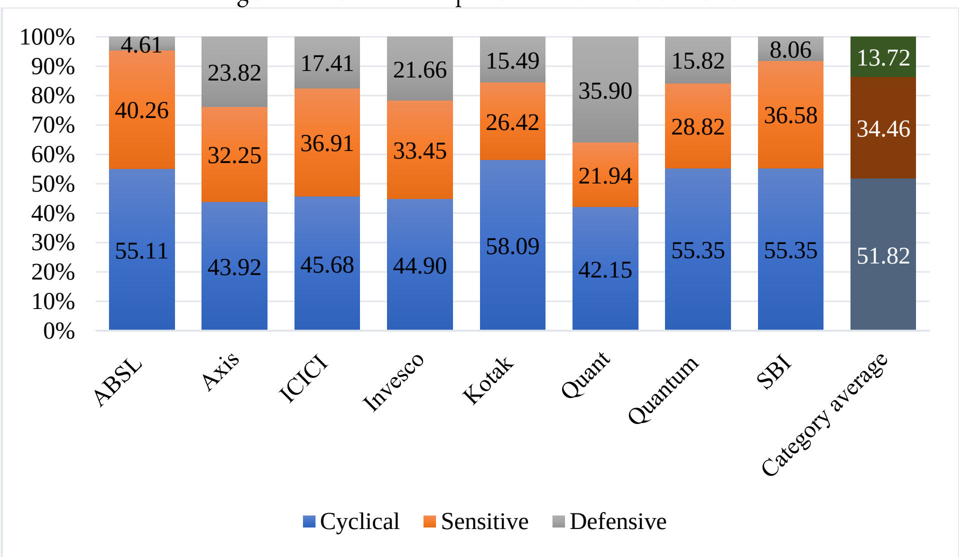
Quant	18	90.01%	9.04%	0.00%	99.05%	0.94%
Quantum	54	95.04%	0.00%	0.00%	95.04%	4.96%
SBI	40	96.29%	0.00%	2.01%	98.30%	1.70%

Source: Morningstar.in (2024) and Moneycontrol.com (2024)

Table V shows that Axis holds the largest number of stocks in its portfolio, while Quant holds the fewest. The category average for the number of stocks held is 43.82; ABSL, Axis, ICICI, and Quantum exceed this average, while others fall short. It can also be inferred that most of these stocks are in the domestic equity market. A holding-wise analysis of these stocks reveals that Axis, ICICI, and SBI have investments in the foreign equity segment. While only Quant operates in the F&O segment, none of the funds have investments in the debt segment. Cash margin derivatives, other mutual funds, exchange-traded funds, gold, short-term deposits, and term deposits placed on margin are among the instruments considered other investments for these mutual funds.

Fund investments can be categorized as cyclical, sensitive, and defensive. The basic materials, consumer cyclical, financial services, and real estate sectors are termed cyclical, whereas communication services, energy, industrials, and technology sectors are considered sensitive. Investments in consumer defense, healthcare, and utility sectors are considered sensitive to mutual fund investments (Morningstar.in, 2024). Figure 4 depicts the investment exposure of the funds currently under study.

Figure 4: Investment exposure of ESG mutual funds

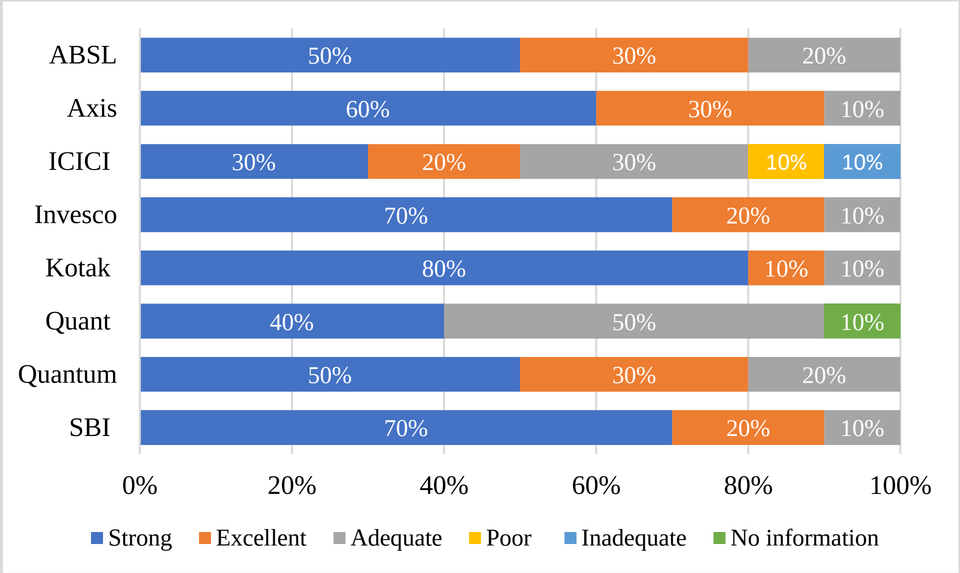


Source: Morningstar.in (2024)

Figure 4 shows that ABSL, Kotak, Quantum, and SBI exceed the category average for cyclical investments. Together with ICICI and ABSL, SBI surpasses the category average for sensitive investments. Except for ABSL and SBI, all the other mutual funds hold more than the category average in defensive investments.

To understand the investment dynamics of ESG mutual funds, an analysis of their ESG investments is conducted. The top ten companies in each fund's portfolio were considered for this. Then, the ESG scores of these companies were compiled from the ESG rating provider (See Appendix 1 for details). Except for one company, ESG scores were available for all companies in which ESG mutual funds have invested. These scores are categorized as excellent, strong, adequate, poor, and inadequate (ESG Risk Assessments and Insights, 2024). The results gathered from the top 10 companies in the fund portfolio are presented in Figure 5.

Figure 5: ESG ranking of top 10 stocks in fund portfolio



Source: ESG Risk Assessments and Insights (2024)

An insightful understanding at Figure 5 reveals that ABSL, Axis, Invesco, Kotak, Quantum, and SBI align their investments with the companies' ESG scores. On the other hand, ICICI and Quant are less attentive to ESG ratings when investing. It can also be seen that Kotak has the highest investments in companies with strong ESG scores.

CONCLUSION

Indian investors are considering a profit matrix for decision-making and are increasingly interested in sustainable investments that fulfill their responsibilities toward various stakeholders. Companies are also interested in their profitable yet sustainable future. The regulators, too, ensure that corporations lead the way toward sustainable profits and account for them in their reports.

AMCs have launched ESG mutual funds for investors, enabling them to reap benefits from ESG-based investments. Regarding the dynamics of the eight ESG mutual funds in India, SBI is the largest ESG mutual fund by NAV, market capitalization, and fund size. Of all the AMCs operating in the Indian market today, SBI Funds Management Limited contributes the most to this fund. Though SBI ESG is the oldest fund in the category and has the lowest expense ratio, its returns are lower than those of the benchmark index, NIFTY100 ESG. Another notable feature of the fund is that it adheres to ESG criteria when making its investments and provides returns that are stable and better risk-adjusted.

Quant has provided the highest returns in the ESG mutual fund category, with only 18 stocks in its portfolio. These returns are volatile and poorly risk-adjusted. It is also revealed that Quant's investments are less exposed to cyclical and seasonal stocks than their category average. Quant invested more than the category average for defensive stocks. Quant has also invested in stocks that are not ranked for ESG. It is further noted that ICICI is the second-highest provider of returns, yet its investments cannot be termed ESG compliant. Although the fund's portfolio consists of stocks rated adequate or above on ESG, it also includes investments that are poorly rated on ESG.

ESG mutual funds in India provide investors with a platform for passive ESG investing and indirectly motivate companies to become more responsible. This study confirms that most fund houses use ESG scores in their investing, but some do not, raising concerns. Investors are parking their savings in these funds for profit and sustainability. These funds should be mandated to invest in their corpus with specific ESG-rated corporates to ensure the responsible investment of investor savings. This will motivate corporations to adopt the best sustainability practices, thereby attracting investors' attention and investment. The fund houses should also ensure they follow best practices in ESG investing to achieve sustainable profits in the future. An extensive approach by regulators, investors, fund houses, and corporations will undoubtedly lead to a sustainable and responsible financial market in India.

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Appendix 1

Top 10 investments of ESG mutual funds as on 8.11.2024

Aditya Birla Sun Life ESG Integration Strategy Fund (ABSL)					
Stock Invested in	ESG Score	Environment Score	Social Score	Governance Score	Category
Infosys Ltd.	71.5	87.6	66.2	74.5	Excellent
ICICI Bank Ltd.	67.21	41.91	68.01	72.82	Strong
HDFC Bank Ltd.	67.5	40.46	66.39	75.59	Strong
LTIMindtree Ltd.	74.8	87.6	74.5	72.3	Excellent
Kotak Mahindra Bank Ltd.	69.64	37.95	72.25	74.95	Strong
Tata Consultancy Services Ltd.	70	81.3	68.5	69.2	Excellent
Bharti Airtel Ltd.	64.5	81	47.6	81.7	Strong
Titan Company Ltd.	48.5	34.2	47.8	66.8	Adequate
Axis Bank Ltd.	69.94	38.31	66.99	81.19	Strong
Coforge Ltd.	56.7	59.7	45.4	70.1	Adequate
Axis ESG Integration Strategy Fund (Axis)					
Stock Invested in	ESG Score	Environment Score	Social Score	Governance Score	Category
Infosys Ltd.	71.5	87.6	66.2	74.5	Excellent
ICICI Bank Ltd.	67.21	41.91	68.01	72.82	Strong
Trent Limited	61.5	53	45.7	77	Strong
HDFC Bank Ltd.	67.5	40.46	66.39	75.59	Strong
Bharti Airtel Ltd.	64.5	81	47.6	81.7	Strong
Torrent Power Ltd.	63.8	65.8	52.2	79.1	Strong
Mahindra & Mahindra Ltd.	70.4	63.2	63.1	79.9	Excellent
Tata Consultancy Services Ltd.	70	81.3	68.5	69.2	Excellent
InterGlobe Aviation Ltd.	53.7	34.2	48.8	73.2	Adequate
ABB India Ltd.	61.6	59.1	53.1	77.3	Strong
ICICI Prudential ESG Exclusionary Strategy Fund (ICICI)					
Stock Invested in	ESG Score	Environment Score	Social Score	Governance Score	Category
Sun Pharmaceutical Industries Ltd.	58.1	57	52.7	67.4	Adequate
Bharti Airtel Ltd.	64.5	81	47.6	81.7	Strong
HDFC Bank Ltd.	67.5	40.46	66.39	75.59	Strong
ICICI Bank Ltd.	67.21	41.91	68.01	72.82	Strong
Inox Wind Ltd.	21.6	2.4	6.3	73.8	Poor
Maruti Suzuki India Ltd.	55.8	51.1	57.6	62.9	Adequate
Infosys Ltd.	71.5	87.6	66.2	74.5	Excellent
TVS Motor Company Ltd.	54.5	37.7	51.6	82.5	Adequate
HCL Technologies Limited	75	67.3	68.7	83.6	Excellent
Inox Green Energy Services Ltd.	34.5	12.7	32.3	74.6	Inadequate
Invesco India ESG Integration Strategy Fund (Invesco)					
Stock Invested in	ESG Score	Environment Score	Social Score	Governance Score	Category
HDFC Bank Ltd.	67.5	40.46	66.39	75.59	Strong
ICICI Bank Ltd.	67.21	41.91	68.01	72.82	Strong
Infosys Ltd.	71.5	87.6	66.2	74.5	Excellent
Tata Consultancy Services Ltd.	70	81.3	68.5	69.2	Excellent
Axis Bank Ltd.	69.94	38.31	66.99	81.19	Strong
Power Grid Corporation of India Ltd.	58.08	48.32	67.3	65.77	Adequate
Bharti Airtel Ltd.	64.5	81	47.6	81.7	Strong
Cholamandalam Investment & Finance Co. Ltd.	61.5	51.9	55.9	70	Strong

Home First Finance Company India Ltd.	61.7	22.6	56.8	76.4	Strong
Manorama Industries Ltd.	61.7	22.6	56.8	76.4	Strong
Kotak ESG Exclusionary Strategy Fund (Kotak)					
Stock Invested in	ESG Score	Environment Score	Social Score	Governance Score	Category
Infosys Ltd.	71.5	87.6	66.2	74.5	Excellent
Larsen & Toubro Ltd.	67.2	74.3	67.7	61.2	Strong
Bharti Airtel Ltd.	64.5	81	47.6	81.7	Strong
Ultratech Cement Ltd.	68	62	66.1	80	Strong
Hero Motocorp Ltd.	64.7	64	61.7	69.3	Strong
GAIL (India) Ltd.	57.55	48.94	85.47	50.72	Adequate
ICICI Bank Ltd.	67.21	41.91	68.01	72.82	Strong
Axis Bank Ltd.	69.94	38.31	66.99	81.19	Strong
Zomato Ltd.	66.6	70.1	55.7	78	Strong
quant ESG Equity Fund (Quant)					
Stock Invested in	ESG Score	Environment Score	Social Score	Governance Score	Category
HDFC Life Insurance Company Ltd.	67.5	40.46	66.39	75.59	Strong
Reliance Industries Ltd.	66.1	57.9	79	71.8	Strong
Jio Financial Services Ltd.					No Information
Aditya Birla Fashion and Retail Ltd.	65.5	63.6	58	74.4	Strong
Britannia Industries Ltd.	57.7	61.3	44.2	70.1	Adequate
Pfizer Ltd.	45.7	19.5	39.1	83	Adequate
Life Insurance Corporation Of India	47.9	27.4	43.5	58	Adequate
Zydus Wellness Ltd.	49	39.1	41	71.3	Adequate
Nestle India Ltd.	51.9	41	47.3	71.9	Adequate
Marico Ltd.	63.8	69	46.5	79.2	Strong
Quantum ESG Best in Class Strategy Fund (Quantum)					
Stock Invested in	ESG Score	Environment Score	Social Score	Governance Score	Category
TVS Motor Company Ltd.	54.5	37.7	51.6	82.5	Adequate
Indian Hotels Company Limited	66.8	81.2	49	78.3	Strong
HDFC Bank Ltd.	67.5	40.46	66.39	75.59	Strong
Tata Consumer Products Ltd.	62.2	64	49	77	Strong
Tata Communications Ltd.	71.1	75.3	60.6	83.2	Excellent
Persistent Systems Ltd.	68.9	78.7	57.5	81	Strong
Infosys Ltd.	71.5	87.6	66.2	74.5	Excellent
ICICI Prudential Life Insurance Co Ltd.	67.21	41.91	68.01	72.82	Strong
Tata Consultancy Services Ltd.	70	81.3	68.5	69.2	Excellent
Bosch Ltd.	53.7	51.6	39.9	76.5	Adequate
SBI ESG Exclusionary Strategy Fund (SBI)					
Stock Invested in	ESG Score	Environment Score	Social Score	Governance Score	Category
Infosys Ltd.	71.5	87.6	66.2	74.5	Excellent
HDFC Bank Ltd.	67.5	40.46	66.39	75.59	Strong
ICICI Bank Ltd.	67.21	41.91	68.01	72.82	Strong
Axis Bank Ltd.	69.94	38.31	66.99	81.19	Strong
Tata Consultancy Services Ltd.	70	81.3	68.5	69.2	Excellent
Larsen & Toubro Ltd.	67.2	74.3	67.7	61.2	Strong
Kotak Mahindra Bank Ltd.	69.64	37.95	72.25	74.95	Strong
Maruti Suzuki India Ltd.	55.8	51.1	57.6	62.9	Adequate
Ultratech Cement Ltd.	68	62	66.1	80	Strong

State Bank of India	64.68	38.07	70.78	64.95	Strong

Source: Moneycontrol.com (2024)