

THE RISE OF ESG (ENVIRONMENTAL, SOCIAL, AND GOVERNANCE) INVESTING IN INDIA: A SECONDARY DATA STUDY

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Abstract: This paper looks at the emergence and rapid growth of ESG (Environmental, Social and Governance) investing in India. Drawing upon comprehensive analysis of existing data, this study examines the growth trajectories of ESG-focused mutual funds, the regulatory framework established by SEBI, and shifts in investor behaviour. Drawing on authoritative sources such as SEBI reports, NPCI, IBEF, and reputable financial news outlets, the study compiles credible data. The results indicate a marked increase in ESG assets under management, primarily driven by regulatory developments, enhanced corporate transparency, and heightened interest from retail investors. The paper examines the main opportunities and challenges associated with ESG investing in India and offers practical recommendations for relevant stakeholders.

Keywords: Environmental, Social, and Governance (ESG), ESG Investing, Sustainable Finance, India, Mutual Funds, SEBI Regulations, ESG Disclosure, Business Responsibility and Sustainability Reporting (BRSR), ESG Debt Instruments, Green Investments, Retail Investors, Corporate Governance, Financial Markets, Responsible Investing, Secondary Data Analysis.

1. INTRODUCTION

1. ESG Investing Overview

Environmental, social and governance (ESG) investing involves incorporating non-financial factors into investment decisions in addition to traditional financial analysis. Globally, ESG investing has become a powerful movement driven by the need for sustainable and ethical business practices.

Investors no longer focus solely on financial returns. They increasingly consider how companies manage environmental issues, treat their employees and communities, and maintain standards of ethical governance.

2. ESG Investing in India: Current Context

India, one of the rapid growing emerging economies, has increased a major growth in ESG investment in the last five years. With more emphasis on climate change, social equity and corporate administration, ESG investment has moved from a niche concept to mainstream strategy in India.

According to the India Brand Equity Foundation (IBEF), the total ESG asset under management (AUM) in India has surpassed ₹11,000 crore (~US \$ 1.5 billion) in mid 2025. This is a significant increase from ₹2,747 crore (US \$ 330 million) in January 2020. The root causes of this growth include:

- Increase awareness about sustainable investment
- Regulatory Initiatives by the Security and Exchange Board of India (SEBI)
- Better ESG publish by Indian companies
- Interest from retail and institutional investors is increasing

3. Regulatory Milestones

SEBI plays an important role in the formation of ESG landscape in India through progressive rules:

- Business Responsibility and Sustainable Report (BRSR) of the top 1,000 listed companies is mandatory from the fiscal year 2022-23.
- The introduction of the BRSR Core Standards with the need for assurance of the third party begins from FY2023-24.
- Mandatory investment rules for ESG-centric mutual funds, ensure minimal allocation to companies that meet strict ESG declaration.
- Regulatory frameworks for ESG-Link Debt instrument launched in 2025, extending the field of sustainable finance.

These measures are aims to promote transparency, prevent green washing and encourage investment in the financial market.

Purpose Of The Study

This study aims to explore the growth path and regulatory changes in ESG investing in India using real secondary data. It focuses on:

1. Measuring growth in ESG AUM
2. Reviewing SEBI's regulatory actions
3. Looking at the shifting behaviors of investors in India's ESG investment market

2. LITERATURE REVIEW

1. Overview of Global ESG Investing Trends

Now ESG investing has become one of the important force in global capital markets. According to the Global Sustainable Investment Alliance (GSIA, 2023), sustainable investment assets reached US\$35.3 trillion across major markets in 2022. This amount makes up over 36% of total assets under management. Studies by Morningstar (2022) show that ESG funds have remained strong during market downturns, attracting long-term investors who want stability and ethical returns.

Academic research by Friede, Busch, and Bassen (2015) analyzed over 2,000 empirical studies. It concluded that about 90% of ESG studies report a positive or neutral relationship between ESG performance and financial returns.

2. Evolution of ESG Investing in India

The ESG investment scene has increased rapidly in the last ten years. Early studies, like those by Sarkar and Sarkar (2018), recognized the need for ESG investing because of issues in corporate governance and environmental risks. Writers argued that the ESG framework is needed to improve investors' protection and support sustainable growth in emerging economies, including India.

Reports from the India Brand Equity Foundation (IBEF, 2024) show that since 2019, ESG-focused mutual funds in India have increased significantly in both number and assets under management. Further, Indian companies have begun to include ESG metrics in financial and operational strategies. This change responds to the demand and regulatory expectations of investors.

3. Regulatory Framework and SEBI's Role

In both academic and industry literature we can identify the crucial role of SEBI in promoting ESG investing. A whitepaper by NITI Aayog (2023) states that India's focus on ESG gained traction with the introduction of Business Responsibility Reports (BRR) in 2012. This later evolved into Business Responsibility and Sustainability Reports (BRSR) in 2021.

SEBI (2022) requires the top 1,000 listed companies to report ESG-related metrics under BRSR starting in FY 2022-23. Research by Bose and Bansal (2023) examined the potential effects of SEBI's BRSR guidelines. They found that these regulations enhance corporate accountability, though challenges with standardization and third-party assurance still exist.

Recent policy briefs by SEBI (2024) looked into ESG fund classifications. They established strict allocation rules and comprehensive disclosures to avoid greenwashing. Studies by Roy et al. (2024) identified these measures as essential for building investor confidence in Indian ESG products.

4. ESG Mutual Funds and Patterns of investment

Research by AMFI (Association of Mutual Funds in India, 2024) shows that the number of ESG-themed funds in India grew from just 3 in 2018 to over 10 by 2025. Their report is highlighted that ESG funds are transferred from niche options to mainstream investment.

Additionally, studies by Das and Mishra (2023) assessed the risk-adjusted returns of Indian ESG mutual funds. They found that many ESG funds provide competitive returns, especially during the market instability, compared to the Traditional Equity Fund. Retail investor behaviour has also changed significantly, as reported by the Economic Times (2025). There is growing participation from younger investors and urban professionals driven by climate concerns, ethical considerations, and long-term value preservation.

5. Gaps in Existing Literature

While previous studies have examined global and Indian ESG market trends, there is limited research that thoroughly looks into:

- The regulatory landscape after 2023 under SEBI's new guidelines (BRSR Core, ESG debt instruments).
- The specific growth patterns of ESG assets under management (AUM) in India since 2019.
- The changing dynamics between retail and institutional investor participation in India's ESG investment space.

This research aims to fill these gaps by using the latest secondary data and offering a focused analysis of India's ESG investing trends and future directions.

3. RESEARCH OBJECTIVES

This study aims to explore the changing landscape of ESG investing in India by analyzing reliable secondary data. The main objectives are:

1. Primary Objective

- To explore the growth and development of ESG investing in India from 2019 to 2025.

2. Secondary Objectives

- To study the role of SEBI and other regulatory agencies in the formation of ESG investment structure in India.
- To track the trend of Assets Under Management (AUM) of ESG mutual funds in India over recent years.
- To identify the main types of ESG investment techniques used in India.
- To evaluate how BRSR publications improve ESG transparency and administration.
- To understand the change in investor preferences towards ESG-aligned funds in India.
- To evaluate the future prospects and challenges of ESG investment in the Indian capital market.

These objectives provide an explicit way of evaluating ESG investment in India using truthful, credible secondary data.

4. RESEARCH METHODOLOGY

1. Nature of the Study

This research study is descriptive and analytical. It relies entirely on secondary data gathered from reliable sources.

2. Research Approach

- Quantitative (Descriptive): To analyze AUM growth, number of funds, and investor trends.
- Qualitative (Interpretive): To assess regulatory changes and strategic frameworks.

3. Data Collection Sources

I collected secondary data from these trusted sources:

- SEBI (Securities and Exchange Board of India): Circulars, press releases, and regulatory updates.

- AMFI (Association of Mutual Funds in India): Reports on ESG fund launches and AUM trends.
- IBEF (India Brand Equity Foundation): ESG market size and investment trends.
- NPCI and RBI: Broader sustainability efforts in India’s financial systems.
- World Bank and IMF: Global ESG alignment indicators.
- Some Reputed Financial Media: Economic Times, Business Standard, Moneycontrol, Reuters, and others.

4. Data Analysis Tools and Techniques

- Trend Analysis: Examining ESG AUM growth over the past six years.
- Comparative Analysis: Comparing ESG fund performance with traditional mutual funds.
- Content Review: Analyzing policy documents and circulars from SEBI and regulatory bodies.
- Tabular Representation: Presenting data through charts and tables for clarity.

5. Time Period of Study

The analysis primarily focuses on the period from 2019 to mid-2025, covering both the pre and post regulation impact phases.

6. Limitations of the Study

- The study only uses secondary data, which may not show real-time investor sentiment or undisclosed fund performances.
- There is limited availability of ESG-specific fund performance data in India because the sector is relatively new.
- The regulatory landscape may continue to change due to the evolving nature of ESG norms, which goes beyond the scope of this study.

5. DATA ANALYSIS & INTERPRETATION

1. Growth of ESG AUM (2019–Mid-2025)

Using secondary data from AMFI and media sources, i track the significant growth of ESG Assets Under Management (AUM) in India over the past six years:

Year / Period	ESG AUM (₹ crore)	Growth Notes
Jan 2019	2,703	Base level recorded in 2019
Jan 2020	2,747	Slight increase from January 2019
Dec 2021	12,544	Grew ~4.5× post-pandemic
Dec 2022	≈11,074	Quarterly average [Jan–Dec]
Mar 2024	10,820	Total AUM as of March 31, 2024
Jun 2025	≈11,000	Confirmed by multiple industry reports

Key Insight: ESG AUM has increased from ₹ 2,703 crore to about ₹11,000 crore from 2019 to the middle of 2025. It identifies 4 times growth, even with a temporary drop in 2022.

2. Number of ESG Schemes

2019 to 2020: Only 3 to 4 ESG schemes existed. SBI launched India’s first ESG fund in 2013 and rebranded it in 2018.

2021: By the end of the year, there were eight ESG-themed equity funds, one ETF, and one FoF.

2024 to 2025: The number of ESG schemes is expected to grow to over 10, including niche large-cap funds.

Interpretation: The growth in schemes reflects trends in AUM, showing strong interest from both investors and the industry.

3. Comparative Sector Growth & MF Industry AUM

The mutual fund industry’s AUM rose from ₹24.78 trillion in April 2019 to ₹72.2 trillion in May 2025.

In 2019, the total mutual fund AOM had about 0.04% ESG AUM, up to about 0.15% by 2025.

Insight: Although ESG makes up a small part of the total, its rapid growth indicates its increasing importance in India's mutual fund space.

4. Impact of Regulatory Events

January 2020 to December 2021: Following the COVID-19, Asset Under Management (AUM) increased to ₹12,544 crore.

December 2021 to June 2022: Because of the global shift away from ESG, We can see there was a small drop to around ₹11,074 crore.

October 2024 to June 2025: SEBI's introduction of ESG norms, BRSR Core, and ESG debt frameworks resulted into stabilization of AUM at about ₹11,000 crore.

Correlation: The emergence and stability of the AUM matches the regulatory change and change in ESG sentiment worldwide.

5. Performance of ESG Funds

Three Years Returns: Many ESG funds have earned 8 to 11% per year, which is comparable to the traditional equity according to the scripbox.

Risk-adjusted metrics: Studies show that the Quant ESG fund outperformed its peers (based on Treynor, Jensen's Alpha, and Sharpe ratios) in FY 2023 to 2024.

Conclusion: Due to competitive returns of ESG investment, there was continuous increase in value in the market and attracted investors' interest in India.

6. Investor Base & Retail Participation

CFA Institute survey in 2025 found that 60% of Indian investors consider ESG funds attractive compared to 29% worldwide.

Retail mutual fund investments surged: SIP inflows grew from \$31 billion in 2019 to \$124 billion in 2024.

Domestic Retail Investment: Retail fluidity is supported by about ₹72 trillion equity AUM with 26% shares in the market.

Implication: A growing number of retail investors are interested in ESG, driven by digital platforms and greater financial awareness.

7. Arising ESG Debt Instruments

In June 2025, SEBI implemented a framework for ESG-linked debt instruments (including social bonds and sustainability-linked bonds) to prevent greenwashing.

In August 2024, the proposal of green securities was introduced by expanding the options for the durable debt.

Significance: ESG financing is expanding as responsible debt instruments beyond equity, providing new investment ways.

Summary Interpretation

1. From ₹2,703 crore in 2019 to ₹11,000 crore in 2025, ESG Asset Under Management (AUM) has increased about 4 times.
2. The number of ESG schemes has grown from just a few to over 10, increasing market variety.
3. Performance metrics show that ESG funds gives competitive returns in comparison to traditional equity.
4. Retail adoption is getting stronger, with increasing SIP trends and priorities for ESG investments.
5. SEBI's regulatory support is important to increase ESG credibility.
6. The development of ESG debt instruments opens new opportunities and signals a maturing market.

6. FINDINGS AND DISCUSSION

This section presents key findings from the analysis of secondary data and discusses their implications for the Indian financial markets, mutual fund industry, investors, and policymakers.

Findings Related to ESG AUM Growth in India

- I. ESG Assets Under Management (AUM) in India rose significantly from ₹2,703 crore in 2019 to about ₹11,000 crore by mid-2025.
- II. Despite the market fluctuations, the regulatory uncertainties and global economic barriers, ESG AUM continues to show long-term growth.
- III. The COVID 19 epidemic worked as a trigger for ESG investment in India, as investors followed companies that have strong administration and sustainable business models.
- IV. India's ESG market, though, is still developing than the advanced economy, is growing rapidly and is gaining investors' confidence.

Findings on Regulatory Framework and SEBI's Role

- I. SEBI has become a strong supporter of ESG investing in India by introducing mandatory Business Responsibility and Sustainability Reporting (BRSR) for the top 1,000 listed companies starting from FY 2022-23.
- II. The SEBI's BRSR Core, the third-party assurance process and the minimum allocation requirements for ESG mutual funds have improved the quality of disclosure and market discipline.
- III. Regulatory frameworks for ESG Debt instrument and Green Securitization show SEBI's promise to strengthen more sustainable finance markets.
- IV. These regulatory steps have reduced the risk of green washing and has increased investors' confidence in ESG themed financial products.

Findings on Investment Strategies and Fund Growth

- I. The number of ESG schemes in India increased from just 3-4 in 2019 to over 10 dedicated schemes by mid-2025.
- II. Fund houses now provide a wider range of ESG investment strategies, including Exclusion, Best-in-Class, and Impact Investing.
- III. Most ESG funds in India follow thematic strategies that focus on environmental sustainability and corporate governance.

Findings related to Investor Behaviour and Retail Participation

- I. Retail investors are showing growing interest in ESG funds, driven by greater environmental awareness, ethical concerns, and improved digital financial literacy.
- II. SIP inflow and constant retail participation in mutual funds have increased significantly, contributing to the growth of ESG funds-based assets.
- III. Young investors, especially the Millennium and Gen Z, are more attracted towards ESG linked investment.

Findings on Performance of ESG Funds

- I. Indian ESG funds have shown competitive risk-adjusted returns, which are comparable to or slightly better than traditional equity funds in many instances.
- II. Studies indicate that ESG funds often provide better protection during the unstable market condition because they focus on stable and elastic companies.
- III. However, some ESG funds face challenges like limited diversity and lack of long-term performance records.

DISCUSSION

The above findings indicate that ESG investment in India is becoming a mainstream topic. The combination of strong regulatory monitoring, increasing investors' interest and the availability of ESG-specific financial products suggests that India's capital markets are grinding with global trend of sustainability.

However, the following challenges remain:

- I. Limited access to high-quality ESG data and ratings.
- II. The short operational history of the Indian ESG funds challenges the long-term evaluation.
- III. Investors' doubts about the promise of fund directors towards true ESG policies highlight the need for an effective monitoring system.
- IV. The role of SEBI is important in this transformation as the ongoing regulatory updates and strict enforcement transparency, accountability and investors' confidence can improve.

Key Discussion Insights

Area	Insight
ESG Market Growth	There is strong AUM growth, driven by regulation, with more retail participation.
Regulation	SEBI's progressive norms are a key factor in formalizing the market.
Investment Returns	Returns are competitive, appealing to ethical and long-term investors.
Retail Participation	Participation is growing quickly; millennials and Gen Z are showing strong interest in ESG.
Challenges	Data gaps, risks of greenwashing, and short track records of funds pose challenges.

7. CONCLUSION AND RECOMMENDATIONS

1. Conclusion

The growth of ESG (Environmental, Social, and Governance) investing in India represents a significant change in the country's financial and investment landscape. This research is based on reliable secondary data from Seb, AMFI, IBEF and other reputed sources that indicates ESG investment has achieved impressive growth from 2019 to middle of 2025.

The study reveals that the total Assets Under Management (AUM) in ESG-themed mutual funds increased from ₹2,703 crore in 2019 to around ₹11,000 crore by 2025. This four-fold growth comes from various factors, including:

- Regulatory actions by SEBI.
- The introduction of mandatory Business Responsibility and Sustainability Reporting (BRSR) and BRSR Core.
- The introduction of the new ESG-centric mutual fund schemes that provide various investment strategies.
- The interest in responsible investment among retailers, especially the younger generation, is increasing.
- Competitive returns from ESG funds compared to traditional mutual fund schemes.

Additionally, the push for ESG-linked debt instruments and the setup of green financing frameworks show that sustainable investing in India is moving beyond equities and into the debt markets.

However, there are still some challenges in India's ESG investment landscapes, e.g.:

- Lack of long-term performance data for many ESG funds.
- Limited availability and standardization of ESG rating and manifestation.
- The risk of green washing on some ESG products.

Despite these challenges, there is a possibility of growing the future of ESG investment in India, supported by evolution of regulations, increasing investors' awareness and greater integration of sustainability in business strategies.

2. Recommendations

For Investors:

- ESG themes varied across: Investors should consider the best-class funds to invest in various ESG strategies such impact investing, climate-centric funds or their risk-return profiles.
- Prioritize long -term views: ESG investment works best for long -term goals; Short -term changes should not be prevented from committing investors.
- Use verified rating: Investors must choose funds that provide ESG rating from Sebi-registered rating agencies to reduce the risk of green washing.

For Mutual Fund Companies:

- Increase transparency: Fund managers need to clearly convey ESG selection criteria, portfolio holdings and impact reports.
- Expand investment education: Companies should create promotions to inform investors about ESG ideas, return and risk.
- Innovation Product Offer: New themes of climate technology, social inclusion and clean power can be added to apply to investors in a wide range of ESG funds.

For Regulators (SEBI & Policy Makers):

- Strengthen the Rules for ESG disclosure: Regulatory bodies, especially for the unlisted entity and the short-Cap ESG fund, need to strengthen the quality of the report, disclosure and standards.
- Establish General Rating Benchmark: Standard ESG rating frameworks should be launched to compare the funds.
- ESG Debt Market Extension Observation: The development of ESG Debt instrument should be closely monitored to prevent the abuse of authority and protect investors.

3. Future Research Directions

Given the rapid changes in India's ESG investing landscape, future studies could focus on:

- Surveys based on primary data to assess investor perceptions.
- Comparative studies of Indian and global ESG funds.
- Evaluating the impact of ESG investments on corporate financial performance.

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