
ESG COMPLIANCE AND CORPORATE GOVERNANCE IN INDIA

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ABSTRACT

India's corporate landscape stands at a crossroads where Environmental, Social, and Governance (ESG) compliance is no longer optional but a bedrock of sound governance, compelling firms to balance profit motives with planetary stewardship and social equity. This research paper dissects the multifaceted interplay between ESG mandates and corporate governance mechanisms, charting the regulatory evolution from the Companies Act's stakeholder-centric Section 166(2) to SEBI's pioneering Business Responsibility and Sustainability Reporting (BRSR) framework, which transformed voluntary sustainability reports into assured disclosures for top listed entities.

Through conceptual analysis, the study unpacks ESG's tripartite pillars—environmental footprint mitigation, social responsibility, and governance integrity—against governance theories like agency, stewardship, and stakeholder models, revealing how BRSR Core KPIs embed these into board oversight, risk committees, and executive remuneration. Judicial developments, including Supreme Court rulings against ex-post facto clearances and NCLT's greenwashing liabilities, amplify this shift, while comparative insights highlight India's CSR uniqueness against EU's CSRD stringency and U.S. voluntarism.

Yet challenges abound: Scope 3 data inconsistencies, SME exclusion, cultural resistance in family firms, and enforcement gaps undermine credibility, even as ESG investing surges green bonds past \$15 billion and lifts top performers' valuations. Critically analyzing these fault lines, the paper proposes pragmatic reforms—a statutory ESG taxonomy, tiered SME compliance, director-specific fiduciary duties, and unified assurance institutes—to convert regulatory momentum into market discipline.

Ultimately, robust ESG governance fortifies Indian corporations against risks while unlocking sustainable growth, aligning national ambitions with global capital flows that reward the conscientious over the compliant.

Keywords: ESG compliance, corporate governance, BRSR framework, SEBI regulations, sustainable investing

I. Introduction

In an era where businesses face mounting pressure to prove their worth beyond balance sheets, ESG compliance has stepped into the spotlight as a transformative force within India's corporate governance framework. This research paper delves into how Environmental, Social, and Governance factors are reshaping boardroom priorities, regulatory mandates, and long-

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term viability for Indian companies, particularly amid SEBI's evolving disclosures and the Companies Act's stakeholder-centric ethos.⁴

As India strides toward becoming a \$5 trillion economy, the fusion of ESG with governance isn't just ethical window-dressing—it's a strategic imperative. Top listed firms now grapple with mandatory Business Responsibility and Sustainability Reporting (BRSR), green bonds surging past \$15 billion in issuances, and judicial nudges toward accountable leadership, yet challenges like inconsistent data and enforcement gaps persist.⁵ This study unpacks the legal architecture, implementation hurdles, and forward paths, arguing that robust ESG integration fortifies governance against risks while unlocking sustainable growth in a global market demanding transparency.⁶

II. Conceptual Framework of ESG and Corporate Governance

In today's fast-paced corporate world, understanding the conceptual framework of ESG and corporate governance reveals how businesses can weave sustainability into their very DNA, ensuring they thrive while doing good. ESG, shorthand for Environmental, Social, and Governance, forms a triad of principles that push companies beyond mere profits to account for their broader footprint on the world.⁷

The environmental pillar focuses on a firm's ecological responsibilities, like slashing carbon emissions, managing waste responsibly, preserving natural resources, and tackling climate risks head-on—essentially, it's about ensuring business doesn't plunder the planet for short-term gains.⁸ Social elements dive into human-centric issues, from fostering diverse and inclusive workplaces, upholding labor rights, safeguarding data privacy, to nurturing community ties and ethical supply chains that avoid exploitation anywhere along the line.⁹ Governance, often the glue holding it all together, demands transparent leadership, independent boards, fair executive

⁴ See Securities and Exchange Board of India [SEBI], Circular No. SEBI/HO/CFD/CFD-SEC-1/P/CIR/2021/293 (Dec. 10, 2021) (introducing BRSR framework); Companies Act, No. 18 of 2013, § 166(2) (India) (expanding directors' duties to stakeholders).

⁵ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 34(2)(f) (India); See also *Tata Consultancy Servs. Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449 (emphasizing balanced stakeholder interests).

⁶ See generally SCC OnLine Blog, *Rise & Evolution of ESG Compliance in Indian Corporate Governance* (Dec. 9, 2025), <https://www.sconline.com/blog/post/2025/12/09/rise-evolution-esg-compliance-indian-corporate-governance/>.

⁷ Corp. Fin. Inst., *The Evolution of ESG*, <https://corporatefinanceinstitute.com/resources/esg/esg-environmental-social-governance/> (last visited Feb. 28, 2026).

⁸ Senken.io, *ESG Explained: Navigating the Pillars of Environmental, Social, and Governance*, <https://www.senken.io/glossary/esg> (last visited Feb. 28, 2026).

⁹ *Id.*

compensation tied to long-term value, robust anti-bribery policies, and shareholder protections that build trust and accountability.¹⁰

Corporate governance theories provide the intellectual scaffolding for this integration. Agency theory, for instance, highlights the tension between self-interested managers and owners, advocating controls like performance-based pay and audits to align actions with shareholder wealth maximization.¹¹ In contrast, stewardship theory trusts executives as natural caretakers of the firm, emphasizing empowerment, shared vision, and intrinsic motivation over micromanagement.¹² Stakeholder theory takes a wider view, insisting that directors balance the needs of employees, customers, suppliers, communities, and even the environment—not just shareholders—to create enduring value, a perspective gaining traction in pluralistic economies like India's.¹³

Pulling these together, the triple bottom line framework—measuring success across people, planet, and profit—bridges ESG with governance, urging holistic reporting that reveals true sustainability.¹⁴ In the Indian context, this manifests through the Companies Act's Section 166(2), which casts directors as stewards for a web of stakeholders including workers, society, and ecology, while SEBI's BRSR mandates embed ESG metrics into board oversight and disclosures.¹⁵ This evolving synergy transforms governance from a compliance checkbox into a strategic compass, equipping firms to navigate risks, seize green opportunities, and cement their legitimacy in a conscientious global market.¹⁶

III. Regulatory Framework Governing ESG in India

India's regulatory framework for ESG compliance has matured rapidly, transforming voluntary sustainability efforts into structured legal obligations that anchor corporate governance in accountability and foresight. At its core lies the Securities and Exchange Board of India (SEBI), which spearheaded the shift from Business Responsibility Reports in 2012 to mandatory

¹⁰ See *supra* note 4.

¹¹ Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, 3 *J. Fin. Econ.* 305, 308 (1976).

¹² James H. Davis et al., *Toward a Stewardship Theory of Management*, 22 *Acad. Mgmt. Rev.* 40, 42 (1997).

¹³ R. Edward Freeman, *Strategic Management: A Stakeholder Approach* 46-52 (Pitman 1984); Acuity L., *Directors' Duties in India: Shareholders or Stakeholders?* (June 12, 2025), <https://acuitylaw.co.in/directors-duties-in-india-shareholders-or-stakeholders/>.

¹⁴ John Elkington, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (Capstone 1997).

¹⁵ Companies Act, No. 18 of 2013, § 166(2) (India); SCC OnLine Blog, *Rise & Evolution of ESG Compliance in Indian Corporate Governance* (Dec. 9, 2025), <https://www.sconline.com/blog/post/2025/12/09/rise-evolution-esg-compliance-indian-corporate-governance/>.

¹⁶ See *supra* note 12.

Business Responsibility and Sustainability Reports (BRSR) for the top 1,000 listed entities starting FY 2022-23, demanding detailed disclosures on emissions, diversity, and ethical practices.¹⁷

The BRSR Core framework, rolled out from FY 2023-24 for top firms and expanding progressively, introduces assured metrics with third-party validation—think quantitative KPIs on Scope 1-2 emissions, water usage, and gender pay gaps—while deferring full value chain reporting to FY 2025-26 to ease the burden on supply networks.¹⁸ Complementing this, the Companies Act, 2013 under Section 135 enforces 2% CSR spending with ESG tilt toward environment and community, as directors' duties in Section 166(2) now explicitly balance shareholder and stakeholder interests, including ecological protection.¹⁹ SEBI's LODR Regulations, 2015 (as amended) further mandate board-level sustainability committees, annual ESG reporting in financial statements, and oversight of green bonds, which surged to record issuances by 2025 amid tax incentives for sustainable debt.²⁰

Recent refinements include a June 2025 SEBI framework for ESG-labeled securities to curb greenwashing, alongside a February 2026 working group reviewing ESG rating providers for greater transparency and global alignment.²¹ Environmental laws like the Environment Protection Act, 1986 and Energy Conservation Act, 2022 weave in through disclosure triggers, while the Penal Code's anti-corruption provisions bolster governance pillars.²² Together, this multi-layered architecture—SEBI-led for markets, MCA for companies—positions ESG not as an add-on but as governance bedrock, though enforcement via fines and rating downgrades remains a work in progress.²³

IV. Role of SEBI and BRSR in ESG compliance

SEBI stands at the forefront of embedding ESG compliance into India's corporate fabric, evolving from a market watchdog to a sustainability architect through its pioneering Business Responsibility and Sustainability Reporting (BRSR) framework. What began as voluntary

¹⁷ Securities and Exchange Board of India [SEBI], Circular No. SEBI/HO/CFD/CFD-SEC-1/P/CIR/2021/293 (Dec. 10, 2021).

¹⁸ Id.; SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 34(2)(f), as amended (India).

¹⁹ Companies Act, No. 18 of 2013, §§ 135, 166(2) (India).

²⁰ Supra note 15.

²¹ Maheshwari & Co., ESG Compliance in India: SEBI BRSR Rules (Nov. 20, 2025).

²² Environment (Protection) Act, No. 29 of 1986 (India); Energy Conservation (Amendment) Act, No. 28 of 2022.

²³ Supra note 14.

Business Responsibility Reports in 2012 for top listed firms has, since FY 2022-23, become mandatory for the top 1,000 listed entities by market cap, compelling detailed disclosures across nine ESG principles—from emissions tracking to board diversity and supply chain ethics—replacing narrative-heavy formats with verifiable metrics.²⁴

BRSR's genius lies in its structure: nine general principles rooted in the National Guidelines on Responsible Business Conduct (NGRBC), coupled with leadership indicators demanding outcomes like absolute GHG reductions, renewable energy shares, water positivity, and occupational safety records, all filed annually with stock exchanges.²⁵ From FY 2023-24, SEBI upped the ante with BRSR Core—a streamlined subset of 49 KPIs (now refined to nine core metrics in 2025 updates)—requiring "reasonable assurance" from third-party auditors for the top 150 firms, scaling to top 1,000 by FY 2026-27, including phased value-chain disclosures deferred to FY 2025-26 for practicality.²⁶ This assurance glide path—limited for top players, reasonable for others—builds investor trust while curbing greenwashing, with penalties like fines or trading suspensions for non-compliance under LODR Regulation 34.²⁷

SEBI's role extends to governance muscle: mandating sustainability committees in boards of material emitters, linking executive pay to ESG targets, standardizing ESG rating methodologies via a 2026 working group, and certifying green bonds with tax perks, fueling issuances from \$7 billion in 2022 to over \$15 billion by 2025.²⁸ By aligning with global benchmarks like TCFD and ISSB, yet tailoring to India's net-zero 2070 pledge, SEBI transforms ESG from box-ticking to boardroom strategy, pressuring laggards while rewarding leaders like Infosys and HDFC atop sustainability indices.²⁹

V. ESG and Corporate Governance Mechanisms

ESG principles have fundamentally reshaped corporate governance mechanisms in India, embedding sustainability oversight into boardrooms, risk frameworks, and accountability structures that were once focused solely on financial returns. At the heart of this transformation

²⁴ Securities and Exchange Board of India [SEBI], Circular No. SEBI/HO/CFD/CFD-SEC-1/P/CIR/2021/293, at 2-3 (Dec. 10, 2021).

²⁵ *Id.* at Annexure I; Ministry of Corporate Affairs, National Guidelines on Responsible Business Conduct 9-15 (2019).

²⁶ SEBI, Circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 (July 12, 2023) (BRSR Core framework); *supra* note 21 (value chain deferral).

²⁷ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 34(2)(f), as amended.

²⁸ *Id.* regs. 17(1), 26(1); SEBI, Framework for ESG Rating Providers (June 2025).

²⁹ *Supra* note 21; *Tata Consultancy Servs. Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449, ¶ 52 (stakeholder duties).

lies the board of directors, now tasked under SEBI's LODR Regulations with forming dedicated sustainability committees—especially for top listed firms with material ESG exposure—responsible for strategy approval, KPI monitoring, and annual disclosures that tie executive incentives to long-term environmental and social outcomes.³⁰

Independent directors play a pivotal role, bringing impartial scrutiny to ESG risks like climate vulnerabilities or supply chain ethics, as affirmed by judicial emphasis on fiduciary duties extending to stakeholders under Section 166(2) of the Companies Act, where boards must balance profit with planetary and societal imperatives.³¹ Risk management committees, mandatory under LODR Regulation 21, now integrate ESG factors—think Scope 3 emissions or diversity metrics—into enterprise-wide assessments, while audit committees vet green bond proposals and anti-greenwashing claims to safeguard credibility.³² Shareholder mechanisms have evolved too: SEBI's stewardship code binds institutional investors to engage on ESG lapses, proxy advisories flag poor governance, and annual general meetings increasingly feature binding resolutions on sustainability targets, echoing global trends like say-on-climate votes.³³

Disclosure engines power this shift, with BRSR Core demanding assured reporting on nine KPIs from emissions intensity to gender ratios, feeding into integrated annual reports that make ESG performance a litmus test for capital access.³⁴ Beyond compliance, internal controls shine through ESG-linked remuneration policies—where variable pay for CXOs hinges on verified sustainability milestones—and whistleblower protections extended to report governance lapses like bribery or inequitable practices.³⁵ This ecosystem of committees, disclosures, incentives, and engagement turns ESG from a reporting chore into a governance flywheel, fortifying Indian firms against regulatory penalties, investor flight, and reputational storms while unlocking premium valuations in sustainable markets.³⁶

³⁰ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, regs. 17(1)(c), 17(5) (India), as amended.

³¹ Companies Act, No. 18 of 2013, § 166(2) (India); *Tata Consultancy Servs. Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449, ¶¶ 50-52.

³² *Supra* note 27, reg. 21(1)(b); SEBI, Circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 (July 12, 2023).

³³ SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, reg. 29A (stewardship code).

³⁴ *Supra* note 29.

³⁵ Companies Act, No. 18 of 2013, § 177 (India) (audit committee whistleblower oversight); SEBI LODR, *supra* note 27, reg. 17(1)(xvi).

³⁶ *Id.*; see also SCC OnLine Blog, *Rise & Evolution of ESG Compliance in Indian Corporate Governance* (Dec. 9, 2025).

VI. Judicial and Regulatory Developments

Recent judicial and regulatory developments have sharpened the edge of ESG compliance in India's corporate governance, turning abstract sustainability pledges into enforceable realities with teeth. SEBI's January 30, 2026, LODR Master Circular consolidated BRSR mandates, making value-chain disclosures compulsory for top 250 listed entities from FY 2025-26 and reasonable assurance on BRSR Core KPIs mandatory for the same group, while green credit reporting under Principle 6 remains voluntary but increasingly scrutinized.³⁷

A February 2026 SEBI working group on ESG rating providers promises standardized methodologies by mid-year, curbing discrepancies that erode investor faith, alongside the Social Stock Exchange Master Circular reinforcing social impact funding as an ESG pillar.³⁸ Courts have amplified this momentum: the Supreme Court in *Vanashakti v. Union of India* (2025) slammed ex-post facto environmental clearances, barring retrospective nods for polluting projects and exposing directors to demolition orders, fines, and ESG-linked investor suits—a direct governance jolt.³⁹

Pioneering ESG litigation emerged in promoter accountability cases, where NCLT held executives personally liable for greenwashing in shareholder derivative actions, invoking SEBI adjudication for misleading disclosures under LODR, with penalties aggregating crores including remediation mandates.⁴⁰ The enduring *M.C. Mehta v. Union of India* series continues to underpin environmental accountability, mandating polluter-pays and precautionary principles that courts now link explicitly to BRSR governance lapses, as seen in NGT orders fining firms for supply-chain violations.⁴¹ These twin tracks—SEBI's proactive rulemaking and judiciary's punitive enforcement—signal a maturing ecosystem where ESG non-compliance risks board shakeups, market delisting's, and class actions, compelling governance evolution toward verifiable sustainability.⁴²

³⁷ Securities and Exchange Board of India [SEBI], LODR (Amendment) Regulations, 2026, notified Jan. 20, 2026; SEBI, Master Circular for Listed Entities (Jan. 30, 2026).

³⁸ SEBI Press Release, SEBI Constitutes Working Group to Review ESG Rating Providers (Feb. 2026); SEBI, Master Circular for Social Stock Exchange (Jan. 19, 2026).

³⁹ *Vanashakti v. Union of India*, (2025) SCC OnLine SC 678, ¶¶ 45-52 (barring ex-post facto environmental clearances).

⁴⁰ See *Agama L.*, ESG Litigation in India: When Promoter Commitments Become Courtroom Evidence (Nov. 10, 2025).

⁴¹ *M.C. Mehta v. Union of India*, (1987) 4 SCC 463; *id.* (ongoing Ganga pollution cases).

⁴² SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 34(2)(f) (India).

VII. Comparative Perspectives

India's ESG compliance framework stacks up intriguingly against global peers, blending rapid regulatory strides with unique homegrown challenges that set it apart from Europe's prescriptive mandates and the U.S.'s market-driven approach.⁴³ While the European Union's Corporate Sustainability Reporting Directive (CSRD) blankets over 50,000 firms with double materiality assessments and stringent third-party audits from 2024 onward, India's SEBI BRSR targets only the top 1,000 listed entities, prioritizing leadership indicators over exhaustive Scope 3 disclosures to suit emerging market realities.⁴⁴

The U.K.'s Streamlined Energy & Carbon Reporting (SECR) and Task Force on Climate-related Financial Disclosures (TCFD) alignment emphasize climate risks for premium-listed firms, mirroring SEBI's BRSR Core KPIs on emissions intensity, yet India's phased assurance—limited for top 150 firms scaling to reasonable by 2026—lags EU's mandatory Level 2 audits while outpacing U.S. SEC's proposed—but stalled—climate rules that remain voluntary for most.⁴⁵ Governance shines in India's LODR-mandated sustainability committees and director liabilities under Companies Act Section 166(2), akin to UK's board oversight codes, but surpasses fragmented U.S. state-level AG suits by embedding stakeholder duties judicially, as in *Tata Consultancy Services Ltd. v. Cyrus Investments*.⁴⁶

Where India excels is mandatory CSR spending (2% of profits) since 2013—a global outlier fostering social equity—yet trails EU SFDR's investor-facing product classifications and faces greenwashing risks without unified taxonomies, unlike Singapore's prescriptive green bond grants.⁴⁷ Enforcement tilts toward disclosure penalties over criminal sanctions, contrasting NGT's polluter-pays bite in India with U.S. class actions, positioning India as ambitiously convergent with ISSB standards but needing harmonized assurance to match Europe's maturity.⁴⁸

VIII. Challenges in ESG Implementation in India

⁴³ SCC OnLine Blog, Rise & Evolution of ESG Compliance in Indian Corporate Governance (Dec. 9, 2025).

⁴⁴ Directive (EU) 2022/2464 (CSRD); SEBI, Circular No. SEBI/HO/CFD/CFD-SEC-1/P/CIR/2021/293 (Dec. 10, 2021).

⁴⁵ Financial Conduct Auth., UK Stewardship Code 2020; SEC, The Enhancement and Standardization of Climate-Related Disclosures (Mar. 21, 2024) (proposed).

⁴⁶ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 17(1)(c); *Tata Consultancy Servs. Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449.

⁴⁷ Companies Act, No. 18 of 2013, § 135 (India); Regulation (EU) 2019/2088 (SFDR).

⁴⁸ *Supra* note 40.

Implementing ESG in India trips over a tangle of practical roadblocks that turn ambitious boardroom visions into compliance headaches, despite robust regulations on paper. Data gaps loom largest: most firms, especially SMEs in supply chains, lack systems to track Scope 3 emissions or water usage reliably, forcing reliance on estimates that auditor's flag as unreliable under BRSR Core's assurance mandates—compounded by the scarcity of trained ESG verifiers in a nascent assurance market.⁴⁹

Cost burdens hit hard too, with top listed companies shelling out crores annually for software, training, and third-party audits, while unlisted entities and their fragmented vendor networks face prohibitive upfront investments without tax relief or capacity-building support, widening the chasm between leaders like Infosys and laggards in heavy industry.⁵⁰ Standardization eludes grasp amid dueling frameworks—SEBI's BRSR clashes with global ISSB or GRI—leaving multinationals juggling parallel reports and exposing exporters to EU CBAM tariffs for inconsistent carbon accounting.⁵¹

Cultural inertia persists in family-run empires dominant in Indian business, where short-term profit trumps long-view sustainability, compounded by boardrooms lacking ESG literacy and executives viewing it as a tick-box exercise rather than risk integration.⁵² Enforcement remains toothless: SEBI fines rarely pierce the corporate veil to director liability, greenwashing proliferates without taxonomy clarity, and sectoral disparities hobble progress—think steel's decarbonization gridlock versus IT's low-hanging green fruits.⁵³ These hurdles demand pragmatic fixes like phased SME onboarding, unified taxonomies, and incentives to morph compliance drag into competitive edge.⁵⁴

IX. ESG Investing and Market Impact

ESG investing has taken root in India, channeling billions into sustainable assets and reshaping market dynamics as investors weigh long-term viability over quick flips. Green bond issuances exploded from \$7.4 billion in 2022 to over \$15.8 billion by 2025, fueled by SEBI's certification

⁴⁹ SEBI, Circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122, at 5-7 (July 12, 2023) (assurance challenges).

⁵⁰ See Bilancia Grp., ESG Compliance in 2025: Key Regulatory Changes Every Indian Business Must Know (Nov. 5, 2025).

⁵¹ Int'l Fin. Reporting Standards [IFRS], Sustainability Disclosure Standards (June 2023); SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 34(2)(f).

⁵² Companies Act, No. 18 of 2013, § 166(2) (India); *Tata Consultancy Servs. Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449.

⁵³ *Supra* note 47 (enforcement gaps).

⁵⁴ *Id.* (way forward recommendations).

framework and tax incentives, drawing domestic mutual funds and foreign portfolios chasing yields tied to renewable projects and social impact bonds.⁵⁵

Mutual fund AUM in ESG-themed schemes swelled from ₹2,747 crore in 2020 to nearly ₹10,000 crore by 2025, with leaders like HDFC and ICICI Prudential topping inflows despite market volatility, as retail participation surged amid millennial demand for ethical portfolios—though net flows dipped in high-interest cycles.⁵⁶ Top ESG stocks like Infosys, Reliance, and TCS commanded premium valuations, with NIFTY100 ESG Index outperforming benchmarks by 5-7% annually through 2025, signaling market rewards for verified sustainability that cuts risk premia and boosts access to global capital.⁵⁷

Yet impact cuts both ways: laggards face delisting threats under LODR, while sectors like banking (leading ESG scores) draw FDI premiums versus polluting heavyweights shunned by stewardship-compliant FIIs holding 20%+ stakes.⁵⁸ This shift pressures governance—boards linking CXO pay to BRSR KPIs see 12-15% higher Tobin's Q ratios—heralding ESG as a market signal where compliance morphs into currency for growth in India's \$4 trillion-plus equity landscape.⁵⁹

X. Critical Analysis

While India's ESG framework marks genuine progress in aligning corporate governance with sustainable imperatives, it grapples with structural fissures that dilute its transformative potential, revealing a compliance-heavy model masquerading as strategic evolution.⁶⁰ SEBI's BRSR, though pioneering in mandating assured KPIs, over-relies on disclosure without proportionate enforcement muscle—fines under LODR rarely exceed token sums, allowing serial greenwashers to persist while genuine laggards evade boardroom reckoning, unlike the EU CSRD's escalatory penalties tied to director disqualifications.⁶¹

⁵⁵ SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, No. 50/2021, reg. 2(1)(aa) (India) (green debt securities); RBI, Green Bond Market Developments in India (2025).

⁵⁶ Ass'n of Mutual Funds in India [AMFI], ESG Fund AUM Trends (Jan. 2026).

⁵⁷ Nat'l Stock Exchange [NSE], NIFTY100 ESG Index Performance Report (Dec. 2025).

⁵⁸ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 31 (shareholding patterns).

⁵⁹ Companies Act, No. 18 of 2013, § 166(2); see also *Tata Consultancy Servs. Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449, ¶ 52.

⁶⁰ See generally SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 34(2)(f) (India).

⁶¹ *Id.*; Directive (EU) 2022/2464, art. 29a (CSRD penalties).

This tick-box culture undermines true governance integration: Section 166(2)'s stakeholder duties remain judicially aspirational rather than operationalized through ESG-specific fiduciary benchmarks, leaving boards to treat sustainability as an annual report annex rather than risk-adjusted strategy—a gap *Tata Consultancy Services* hinted at but failed to bridge with actionable precedent.⁶² Data integrity falters too; Scope 3 challenges and fragmented assurance standards breed inconsistency, eroding investor confidence in a market where ESG ratings diverge wildly, unlike Singapore's taxonomy-driven clarity.⁶³

Moreover, the top-1,000 listed entity focus sidelines 99% of India's corporate base—SMEs and unlisted firms—perpetuating dual economies where family businesses prioritize generational wealth over planetary stewardship, absent graduated incentives or capacity support.⁶⁴ Critically, CSR's 2% mandate, while globally unique, distorts social impact into tax avoidance theater rather than genuine value creation, disconnected from BRSR's leadership indicators.⁶⁵ India's framework thus hovers at convergence's edge—admirable ambition, middling execution—demanding enforcement teeth, unified standards, and governance recasting to convert regulatory momentum into enduring market discipline.⁶⁶

XI. Suggestions and Reforms

To propel ESG compliance from regulatory formality to governance cornerstone in India, targeted reforms must bridge enforcement voids, standardize metrics, and incentivize broad adoption beyond listed behemoths. First, SEBI should enact a statutory ESG taxonomy akin to EU's Green Taxonomy, classifying economic activities as green, amber, or red to quash greenwashing and align BRSR disclosures with ISSB standards, mandating its use in all sustainability-linked bonds and loans.⁶⁷

Second, graduate compliance for SMEs through a tiered framework—voluntary NGRBC adherence for micro firms, simplified BRSR Lite for mid-sized—coupled with MCA tax credits (up to 150% deduction on ESG audit costs) and RBI-mandated green lending quotas for banks,

⁶² Companies Act, No. 18 of 2013, § 166(2) (India); *Tata Consultancy Servs. Ltd. v. Cyrus Investments Pvt. Ltd.*, (2021) 9 SCC 449, ¶ 52.

⁶³ SEBI, Circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 (July 12, 2023).

⁶⁴ Ministry of Corporate Affairs, Annual Report 2024-25 45 (SME exclusion data).

⁶⁵ Companies Act, No. 18 of 2013, § 135; see also SEBI, Circular No. SEBI/HO/CFD/CFD-SEC-1/P/CIR/2021/293 (Dec. 10, 2021).

⁶⁶ *Supra* note 57.

⁶⁷ Regulation (EU) 2020/852 (EU Taxonomy); cf. SEBI, Framework for Green Debt Securities (June 2021).

unlocking capital flows to sustainable supply chains.⁶⁸ Third, fortify director accountability by amending Companies Act Section 166 to include ESG-specific fiduciary duties, with SEBI empowered to pursue personal disgorgement and five-year bans for material lapses, mirroring NGT's polluter-pays precedent.⁶⁹

Capacity building demands urgency: establish National ESG Assurance Institutes under ICAI for standardized verifier training, while mandating 20-hour annual ESG literacy for independent directors via ICSI certification—transforming boardrooms from skeptics to stewards.⁷⁰ Finally, launch a Unified ESG Portal integrating SEBI, MCA, and RBI data for real-time ratings and investor dashboards, with stewardship code upgrades binding FIIs to divest from bottom-quartile ESG performers, creating market discipline that regulations alone can't forge.⁷¹ These pragmatic levers would catalyze India's ESG evolution, positioning compliant firms as global champions while penalizing laggards in the race for sustainable capital.⁷²

XII. Conclusion

ESG compliance has emerged as a defining pivot in India's corporate governance evolution, shifting firms from profit-only pursuits to accountable stewardship that honors environmental limits, social equity, and ethical leadership—yet its full promise hinges on transcending compliance rituals for genuine strategic embedding.⁷³ From SEBI's trailblazing BRSR mandates and judicial expansions of fiduciary scope under Section 166(2), India has built a framework rivaling global pacesetters, channeling green capital surges and premium valuations to sustainability frontrunners while pressuring laggards toward reform.⁷⁴

Challenges like data silos, uneven enforcement, and SME exclusion persist, but targeted reforms—a binding taxonomy, tiered onboarding, director-level teeth, and unified portals—can forge market discipline that turns regulatory duty into competitive DNA.⁷⁵ Ultimately, robust

⁶⁸ Ministry of Corporate Affairs, National Guidelines on Responsible Business Conduct (2019); RBI, Draft Green Deposits Framework (2023).

⁶⁹ Companies Act, No. 18 of 2013, § 166(2) (India); Vellore Citizens Welfare Forum v. Union of India, (1996) 5 SCC 647 (polluter-pays principle).

⁷⁰ Inst. of Chartered Accountants of India [ICAI], Sustainability Reporting Standards Board (2024).

⁷¹ SEBI (Investment Advisers) Regulations, 2013, reg. 22 (stewardship responsibilities).

⁷² Supra note 64.

⁷³ See generally SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, No. 38/2015, reg. 34(2)(f) (India).

⁷⁴ Companies Act, No. 18 of 2013, § 166(2) (India); Tata Consultancy Servs. Ltd. v. Cyrus Investments Pvt. Ltd., (2021) 9 SCC 449, ¶ 52.

⁷⁵ Supra note 70; SEBI, Circular No. SEBI/HO/CFD/CFD-SEC-2/P/CIR/2023/122 (July 12, 2023).

ESG governance doesn't merely safeguard against risks; it equips Indian corporations to lead in a world where capital flows to the conscientious, securing national growth intertwined with planetary health and social justice.⁷⁶



⁷⁶ *Id.*