

EVALUATION OF FINANCIAL PERFORMANCE OF SELECTED COMPANIES BASED ON ESG RATINGS: A SECTORAL COMPARISON WITH THE NIFTY 50 INDEX

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Abstract: ESG is gaining speed because investors have recognized the importance of sustainable business practices in charting risks linked to rapid industrialization, environmental degradation, and social inequality. Investors find it hard to determine if firms with high ESG ratings offer a better balance of risk and reward than those with lower scores. The objectives of the study are to analyse return and risk of low and high ESG-rated companies within the sector and between other sectors and to calculate risk-adjusted performance between strong and weak ESG-rated firms across manufacturing, logistics, pharmaceutical, and IT sectors. The data has been collected from various review papers and company website. The data for five year period 2021-2025 has been analysed for 10 companies in different sectors. The financial performance of the same is compared with market Nifty. According to the study, ESG ratings do not always translate into higher financial returns within a particular industry. Some businesses with low ESG scores have outperformed their strong ESG counterparts over five-year periods, producing some of the highest returns in their respective industries. All-inclusive approach is necessary for investors, bringing together ESG scores with company fundamentals, sector trends, and macroeconomic context

Keywords: ESG- Financial performance of ESG- ESG Rating-Risk and Return evaluation.

1. Introduction:

Environmental, Social, and Governance (ESG) factors have become integral to investment decision-making, reflecting major transition from traditional financial metrics to a more Inclusive approach that considers long term



sustainability and ethical considerations(Shobande & Ogbeifun, 2022). This evolution in investment philosophy underscores the growing recognition that financial performance is increasingly enmeshed with a company's environmental governance, social responsibility, and governance practices(Jain et al., 2019).

Over the past 20 years, investing in ESG has gained major traction globally. According to Bloomberg Intelligence, global ESG assets surpassed \$30 trillion in 2022 and are anticipated to exceed \$40 trillion (Dollars) by 2030, representing over 25% of the forecasted \$140 trillion (Dollars) in assets under management (AUM) Bloomberg.com. This growth is led by increasing the awareness of sustainability issues, regulatory developments, and a growing pool of evidence linking strong ESG performance with superior financial returns(Ochoa & Gehrke, 2026).

In India, capitalizing on ESG is gaining speed because investors have recognized the importance of sustainable business practices in charting risks linked to rapid industrialization, environmental degradation, and social inequality(van Duuren et al., 2016). Investors find it hard to determine if firms with high ESG ratings offer a better balance of risk and reward than those with lower scores(Panda et al., 2026). There is also uncertainty about whether this relationship is true across different industries since ESG practices differ by sector(Joshi & Joshi, 2024). There is need to clarify how ESG affects financial risk, returns, and overall investment efficiency in India's diverse market.

The following gaps were observed from various review. Strong ESG performance is linked to lower risk and better resilience. Companies and funds with higher ESG scores typically experience less volatility, have better governance, and enjoy more investor confidence(Zahra et al., 2025). This is especially true in emerging markets like India, where volatility and regulatory changes add uncertainty The connection between ESG and higher returns is not always clear-cut(Boido et al., 2022). ESG investments perform as well as or better than traditional investments, some show just similar returns. The main benefit of ESG investing seems to be combining financial performance with long-term stability, helping investors avoid large losses(Alahdal et al., 2026). Governance is the most important part of ESG in India. Ttransparency, accountability, and strong boards have a bigger impact on performance than environmental or social factors(De Lucia et al., 2020). This matches India's regulatory focus on better ESG disclosures through SEBI's frameworks. Some global studies report strong positive effects of ESG, but Indian studies show mixed results due to differences in samples and methods(Sudha, 2015). Most Indian research looks at ESG funds or major indices but lacks sector-by-sector or firm-level comparisons, which limits understanding of where ESG effects are strongest(Patabendige et al., 2026). Research also lacks insight on how evolving ESG regulations in India might change firm performance over time(Salman et al., 2024). Very few studies compare strong versus weak ESG firms within the same industry, which is crucial for investors making sector-specific choices.

Sustainability is becoming more important for businesses around the world, and India is closely following this trend. The Securities and Exchange Board of India (SEBI) introduced the Business Responsibility and Sustainability Reporting (BRSR) framework to encourage companies to be more transparent about their environmental, social, and governance (ESG) efforts(Thakrar & Bhurat, 2023). This framework aims to hold companies accountable for their impact on society and the environment (Cheng et al., 2023).Despite these efforts, many investors still wonder if good ESG scores lead to better financial results. This study is significant because it examines whether companies with higher ESG ratings perform better financially than those with lower ratings. It also looks at whether adopting ESG practices lowers investment risk, which can help protect investors(Verheyden et al., 2016).It will reveal how ESG performance connects to financial outcomes, helping guide smarter investment choices and support sustainable economic growth in India.

2. Methodology:

The objectives of the study are to analyse return and risk of low and high ESG-rated companies within the sector and between other sectors and to calculate risk-adjusted performance between strong and weak ESG-rated firms across manufacturing, logistics, pharmaceutical, and IT sectors.

Scope, sample and tools used for the study: This study covers a five-year timeframe, from 2020 through 2025. It focuses on sixteen companies listed in India, chosen from four important sectors: manufacturing, logistics, pharmaceuticals, and information technology. Each sector has firms with both high and low ESG scores, allowing a fair look at differences within and across industries. These sectors represent key areas of the Indian economy and vary in how they adopt ESG practices. By examining this diverse group, the study aims to show how environmental, social, and governance factors affect company performance and risk in real-world settings. To give a clear point of comparison, the study uses the Nifty 50 index as a benchmark to track overall market performance. This helps put the companies' financial results into a broader perspective. The main goal is to analyse performance differences both within the same sector and between different sectors. This means the study will look at how strong and weak ESG

performers compare in manufacturing, then do the same for logistics, pharmaceuticals, and IT. It will also explore how these sectors perform relative to one another. This approach provides a full picture of ESG's role in shaping investment returns and risks across India's economy. The companies include are ACC Limited, Havells India, Hindustan Copper Limited, Steel Authority of India Limited (SAIL), Adani Ports and Special Economic Zone (APSEZ), Allcargo Logistics, Blue Dart Express Ltd, Container Corporation of India Limited (CONCOR), Infosys, Moschip Technologies, Infibeam Avenues Ltd, Tata Consultancy Services (TCS), Biocon, Cipla, Dishman Carbogen Amcis Ltd, Marksans Pharma Ltd

These companies are categorized based on their ESG ratings: Strong ESG Performers: Companies with high ESG scores, indicating strong sustainability practices and Weak ESG Performers: Companies with low ESG scores, reflecting areas for improvement in sustainability. This classification allows for a comparative analysis of ESG performance across different sectors and its result on financial outcomes.

The study uses quantitative methods to analyse the relationship between ESG performance and financial metrics. Monthly return data for the selected companies from 2020 to 2025 will be collected to assess financial performance.

Null Hypothesis (H_0): There is no significant difference in returns between companies with low and high ESG ratings

Alternative Hypothesis (H_1): There is a significant difference in returns between companies with low and high ESG ratings.

Paired sample t-tests are used to determine whether differences between strong and weak ESG companies are statistically significant. Key financial metrics analysed include: Volatility: Measured by the standard deviation of returns to indicate the degree of variation in company returns, Beta: Assessing the sensitivity of a company's returns to market movements, reflecting systemic risk, Sharpe Ratio: Evaluating risk-adjusted returns by comparing excess returns to the standard deviation of returns., Treynor Ratio: Assessing returns relative to market risk which provides insights into performance per unit of market risk.

The Nifty 50 index serves as a benchmark for evaluating the performance of the selected companies. By comparing the risk-adjusted returns of the companies to the Nifty 50, this study aims to assess whether strong ESG performance correlates with superior market performance.

Calculating Returns: $\text{Monthly Return} = \frac{\text{Current Price} - \text{Previous Price}}{\text{Previous Price}} \times 100$

Measuring Risk is with the help of standard deviation

$\text{Beta} = \text{SLOPE}(\text{Stock Returns}, \text{Market Returns})$

Assessing Risk-Adjusted Returns:

Sharpe Ratio: It shows the extra return earned for taking overall risk.

$\text{Sharpe Ratio} = \frac{\text{Return Portfolio} - \text{Risk-Free Rate}}{\text{Standard Deviation of Portfolio}}$

Treynor Ratio: This focuses on returns related to market risk specifically.

$\text{Treynor Ratio} = \frac{\text{Portfolio Return} - \text{Risk-Free Rate}}{\text{Beta of Portfolio}}$

Data analysis and discussion:

The study compares these ratios for companies with strong ESG ratings against those with weak ratings across manufacturing, logistics, pharmaceutical, and IT sectors.

Particulars	ESG Rating	Return			SD			RF	Sharpe		
		5yr	3yr	1yr	5yr	3yr	1yr		5Y Sharpe	3yr Sharpe	1yr Sharpe
ACC	Strong	1.4662	0.0000	-1.8800	7.8854	7.6036	6.0955	5.64	-0.5293	-0.7418	-1.2337
Havells	Strong	2.3306	1.1314	0.4791	8.8542	8.3914	9.2247	5.64	-0.3738	-0.5373	-0.5595
Hindustan Copper	Weak	6.0306	2.9297	-1.0274	24.7197	15.8158	14.6812	5.64	0.0158	-0.1714	-0.4541
SAIL	Weak	3.7635	0.9497	-0.7732	15.6167	10.4811	10.4788	5.64	-0.1202	-0.4475	-0.6120

Adani Port	Strong	3.0628	1.6377	-0.7890	9.6405	9.5644	7.4066	5.64	-0.2673	-0.4185	-0.8680
Allcargo	Weak	2.3348	-1.7761	-6.8946	12.3060	10.7861	9.6363	5.64	-0.2686	-0.6876	-1.3008
Blue Dart	Strong	2.1808	-0.0244	0.1630	10.0125	7.6178	7.1171	5.64	-0.3455	-0.7436	-0.7696
Concor	Weak	1.6156	0.4421	-1.6002	8.9452	8.6572	9.3369	5.64	-0.4499	-0.6004	-0.7754
Infosys	Strong	1.8177	-0.2582	0.7505	8.0325	7.3437	8.3921	5.64	-0.4758	-0.8032	-0.5826
Moschip	Weak	7.7514	4.6543	9.2205	26.5230	25.3411	40.1062	5.64	0.0796	-0.0389	0.0893
Infibeam Avenues	Weak	1.9269	0.2484	-6.0000	14.3513	14.3865	8.2947	5.64	-0.2587	-0.3748	-1.4033
TCS	Strong	1.3777	0.1282	-0.3192	6.3432	5.7227	7.7470	5.64	-0.6720	-0.9631	-0.7692
Biocon	Strong	0.8039	0.4308	2.6519	9.2310	8.7703	10.2053	5.64	-0.5239	-0.5940	-0.2928
Cipla	Strong	2.3151	1.1245	-0.2401	7.5310	5.7349	4.3345	5.64	-0.4415	-0.7874	-1.3566
Dishman Carbogen	Weak	4.2473	1.5964	0.5488	21.4082	15.3138	15.6896	5.64	-0.0651	-0.2640	-0.3245
Marksans Pharma	Weak	5.8451	5.4987	4.4450	16.0881	15.2277	16.5892	5.64	0.0127	-0.0093	-0.0720

		Return			Beta				Treynors		
Particulars	ESG Rating	5yr	3yr	1yr	5yr	3yr	1yr	RF	5yr Treynor	3yr Treynor	1yr Treynor
ACC	Strong	1.4662	0.0000	-1.8800	0.8569	1.0873	1.0871	5.64	-4.8706	-5.1870	-6.9176
Havells India	Strong	2.3306	1.1314	0.4791	0.9413	0.9957	1.2266	5.64	-3.5157	-4.5280	-4.2077
Hindustan Copper	Weak	6.0306	2.9297	-1.0274	2.5302	2.4666	1.4687	5.64	0.1544	-1.0988	-4.5396
SAIL	Weak	3.7635	0.9497	-0.7732	2.1041	1.7411	1.1007	5.64	-0.8919	-2.6939	-5.8265
Adani Port	Strong	3.0628	1.6377	-0.7890	1.2438	1.4632	0.8239	5.64	-2.0721	-2.7353	-7.8032
Allcargo	Weak	2.3348	-1.7761	-6.8946	1.4437	1.6381	1.1951	5.64	-2.2894	-4.5272	-10.4885
Blue Dart	Strong	2.1808	-0.0244	0.1630	0.6223	0.5734	0.9536	5.64	-5.5592	-9.8786	-5.7437
Concor	Weak	1.6156	0.4421	-1.6002	1.2285	1.4788	1.2975	5.64	-3.2760	-3.5149	-5.5801
Infosys	Strong	1.8177	-0.2582	0.7505	0.9092	0.8832	1.0342	5.64	-4.2042	-6.6781	-4.7280
Moschip Technologies	Weak	7.7514	4.6543	9.2205	1.3346	2.5042	5.0151	5.64	1.5820	-0.3936	0.7139
Infibeam Avenues	Weak	1.9269	0.2484	-6.0000	1.2902	0.7146	0.2080	5.64	-2.8780	-7.5449	-55.9580
TCS	Strong	1.3777	0.1282	-0.3192	0.7758	0.9715	1.3887	5.64	-5.4938	-5.6737	-4.2913
Biocon	Strong	0.8039	0.4308	2.6519	1.1297	1.3201	1.9728	5.64	-4.2808	-3.9461	-1.5147
Cipla	Strong	2.3151	1.1245	-0.2401	0.7435	0.6409	0.6441	5.64	-4.4721	-7.0459	-9.1289
Dishman Carbogen	Weak	4.2473	1.5964	0.5488	2.0251	1.3168	0.9782	5.64	-0.6877	-3.0708	-5.2044
Marksans Pharma	Weak	5.8451	5.4987	4.4450	1.7104	1.9865	2.3528	5.64	0.1199	-0.0711	-0.5079

Sharpe Ratio: Measures the return earned more than the risk-free rate (5.64%) per unit of total risk (volatility measured by standard deviation). For Moschip Technologies, the 5-year Sharpe is 0.08. This means that the risk taken is justified by the returns. Most other companies have negative Sharpe values, e.g., Acc Limited (-0.53), TCS (-0.67), indicating returns they offered did not justify their volatility compared to a risk-free asset. Help evaluate if an investor was compensated for both market and specific risks.

Treynor Ratio: Measures the return earned in excess of the risk-free rate per unit of market risk (systematic risk measured by beta). Moschip's 5-year Treynor ratio is 1.58, shows strong compensation for market risk exposure. Conversely, Acc Limited's 5-year Treynor is negative (-4.87), implying lower returns relative to market risk. Focuses only on market risk, ideal for diversified portfolios where non-market risks are minimized. In summary, Sharpe accounts for total investment risk, while Treynor focuses on market-related risk. Moschip Technologies shows relatively better risk-adjusted returns in both metrics, while others show less favorable risk-adjusted performance, reflecting their volatility and market sensitivity.

T-test Analysis and results: Within sectors:

Within Sectors

IT Sector		Return		Variance			t stat	t critical	p value
	N	Variable 1	Variable 2	Variable 1	Variable 2	Correlation			
5 Year	60	4.8391	1.5977	253.4235	43.3249	0.3150	1.6529	2.0010	0.1037
3 Year	36	2.4513	-0.0650	244.8810	36.9725	0.3320	1.0210	2.0301	0.3143
1 Year	12	1.6103	0.2157	500.6632	59.1029	0.3607	0.2315	2.2010	0.8212

IT Sector

5 Year: p-value = 0.103662 (above 0.05), 3 Year: p-value = 0.314262 (above 0.05) and 1 Year: p-value = 0.821214 (above 0.05)

There is no statistically significant difference in returns between companies with low and high ESG ratings within the IT sector for any of the periods considered.

In the IT sector, the statistical tests show that there is no clear evidence of a meaningful difference in returns between companies with low versus high ESG ratings over 1, 3, or 5 years. This suggests that for technology companies, ESG ratings may not strongly influence investment returns in the short to medium term. And that other factors might show better outcomes than the ESG effects in this dynamic industry.

Manufacturing Sector:

Manufacturing Sector		Return		Variance			t stat	t critical	p value
	N	Variable 1	Variable 2	Variable 1	Variable 2	Correlation			
5 Year	60	1.8984	4.8970	45.6662	344.9786	0.3949	-1.3604	2.0010	0.1789
3 Year	36	0.5657	1.9397	42.6835	160.2160	0.6266	-0.8274	2.0301	0.4136
1 Year	12	-0.7005	-0.9003	45.9924	143.0584	0.6688	0.0771	2.2010	0.9399

5 Year: p-value = 0.178871 (above 0.05), 3 Year: p-value = 0.413593 (above 0.05) and 1 Year: p-value = 0.939916 (above 0.05)

No significant difference in returns is observed within the Manufacturing sector between low and high ESG rated companies, across all periods.

For the manufacturing sector, the results also do not show any significant difference in returns based on ESG ratings across all observed timeframes. This indicates that, within manufacturing companies, ESG performance does not appear to be a deciding factor for financial returns during these periods. It is possible that operational or market factors have a greater impact on returns here.

Logistics sector:

Logistics Sector		Return		Variance			t stat	t critical	p value
	N	Variable 1	Variable 2	Variable 1	Variable 2	Correlation			

5 Year	60	1.9752	2.6218	73.2800	58.3545	0.4368	-0.5803	2.0010	0.5640
3 Year	36	-0.6670	0.8066	73.7709	46.1405	0.4914	-1.1177	2.0301	0.2713
1 Year	12	-4.2474	-0.3130	66.8046	42.8069	0.3921	-1.6567	2.2010	0.1258

Logistics Sector 5 Year: p-value = 0.563951 (above 0.05), 3 Year: p-value = 0.271294 (above 0.05) and 1 Year: p-value = 0.125797 (above 0.05)

Within the Logistics sector, returns do not significantly differ between companies with low and high ESG ratings for any timeframe.

Within the logistics sector, similar findings are found that there is no statistically significant difference in returns between low and high ESG rated firms. This could mean ESG considerations are not accurate in predicting financial performance variation in logistics, or that the sector's returns are influenced more by other economic or operational drivers.

Pharmaceutical Sector:

Pharmaceutical Sector		Return		Variance			t stat	t critical	p value
	N	Variable 1	Variable 2	Variable 1	Variable 2	Correlation			
5 Year	60	5.0462	1.5595	274.1820	49.6040	0.5093	1.8863	2.0010	0.0642
3 Year	36	3.5476	0.7777	161.1776	31.5185	0.4403	1.4580	2.0301	0.1538
1 Year	12	2.4969	1.2059	193.5682	37.4930	0.5120	0.3729	2.2010	0.7163

Pharmaceutical Sector 5 Year: p-value = 0.064182 (above 0.05), 3 Year: p-value = 0.153755 (above 0.05) and 1 Year: p-value = 0.716305 (above 0.05)

No significant difference in returns within the pharmaceutical sector between low and high ESG rated companies, in every time-period tested.

Finally, for pharmaceutical companies, the data suggests no significant return difference tied to ESG ratings over the examined periods. This indicates ESG ranking alone may not distinguish stock performance in pharmaceuticals, possibly because other factors like innovation, regulation, or scientific breakthroughs play stronger roles.

Across all four sectors and all time periods, the high p-values mean the null hypothesis is not rejected, indicating no evidence for significant differences in returns based on ESG rating within any individual sector.

Among the Sectors:

Among Sectors		Return	Variance		t stat	T Critical	p value	Result	Among Sectors	
	N	Variable 1	Variable 2	Variable 1	Variable 2	Correlation				
5 Year	60	4.1894	1.9193	111.5830	27.0393	0.6246	2.1015	2.0010	0.0399	Significant
3 Year	36	1.8179	0.5213	78.2958	22.9678	0.7060	1.2094	2.0301	0.2346	No Significance
1 Year	12	-0.2601	0.1020	104.7042	27.1308	0.6180	-0.1545	2.2010	0.8800	No Significance

5 Year Period: The p-value is 0.0399, which is just below the commonly used threshold of 0.05. This suggests that, when all sectors are considered together over a five-year period, there is a statistically significant difference in returns between companies with low and high ESG ratings. This result means ESG ratings did matter for returns over the long term when looking across sectors.

3 Year Period: The p-value rises to 0.2346, well above 0.05. This means there is no significant difference in returns between low and high ESG rated companies across sectors in this shorter, three-year window. Any observed differences are likely due to chance rather than a real impact of ESG performance.

1 Year Period: The p-value for the past year is even higher at 0.8800. This suggests absolutely no evidence of a difference in returns based on ESG ratings across sectors for the most recent year.

Looking across all sectors at once, ESG ratings only seem to have a meaningful relationship with returns when taking a long-term (5-year) view. For shorter timeframes (3 years or less), the data show no clear link between ESG performance and financial returns across sectors. This highlights that the potential benefits of strong ESG practices on investment returns may only become apparent over longer periods.

Between the sectors: .6

Between Sectors

Between Sectors		Return		Variance			t stat	t critical	p value	Result
	N	Variable 1	Variable 2	Variable 1	Variable 2	Correlation				
5 Year	60	4.1894	1.9193	111.5830	27.0393	0.6246	2.1015	2.0010	0.0399	Significant
3 Year	36	1.8179	0.5213	78.2958	22.9678	0.7060	1.2094	2.0301	0.2346	Not Significant
1 Year	12	-0.2601	0.1020	104.7042	27.1308	0.6180	-0.1545	2.2010	0.8800	Not Significant

5 Year View Over five years, companies with better ESG scores showed clear differences in financial performance compared to those with weaker scores. The stats confirm this difference is real not just random especially when comparing across industries.

3 Year View In the past three years, that clear difference disappears. The numbers suggest ESG ratings did not have a strong impact on returns. Any gaps could just be coincidence.

1 Year View Looking at just the last year, there is no sign at all that ESG scores influenced financial performance. The results are almost identical across companies, even with different ESG rating.

Finally, this concludes that the ESG rating is important only when the time frame is larger. The impact of ESG ratings on the returns can only be seen over a long period of time. In the short term, it is difficult to see any valid effect on the returns.

Findings of the study:

The following are the findings on ESG's impact on returns and risk

Return Patterns: According to the study, ESG ratings do not always translate into higher financial returns within a particular industry. Some businesses with low ESG scores (such as Moschip Technologies and MarksansPharma) have outperformed their strong ESG counterparts over five-year periods, producing some of the highest returns in their respective industries. However, the superiority of weak ESG firms is often accompanied by much higher levels of instability, as evidenced by higher standard deviation and beta values.

Risk-Adjusted Performance: Strong ESG businesses often exhibit less market sensitivity and volatility, which results in more consistent returns. Analysis of the Treynor and Sharpe ratios reveals that risk-adjusted returns are typically low and occasionally negative for the majority of businesses. A small number of weak ESG companies (like Moschip Technologies, which has a positive Treynor and Sharpe over five years) provide risk-adjusted returns that adequately offset their high risk, but these are the exception rather than the rule(Bennani et al., 2018).

Sectoral Differences: In manufacturing, the most unstable and beta-highest ESG companies, such as Hindustan Copper, have notable returns but wide variations. Stronger ESG companies, like Havells India, generate lower but more consistent returns. In logistic sector, although volatility is marginally lower for strong ESG firms, there is no statistically significant difference in returns between strong and weak ESG performers. While in IT, Strong ESG firms, like Infosys and TCS, offer consistent, reasonable performance and low volatility, whereas weak ESG outliers, like Moschip, exhibit abnormally high returns and risk. In Pharmaceutical sector weak ESG firms continue to dominate returns, they also carry a significantly higher risk—standard deviations greater than 15 as opposed to 5–10 for strong ESG firms.

The results from Paired t-tests are for all time periods (1, 3, and 5 years), the sector-wise p-value stays above 0.05, suggesting that there is no discernible difference in mean returns between strong and weak ESG firms in the same sector. With respect to cross-sector statistical significance: The p-value (0.0399) is below 0.05 when examining all sectors combined over a five-year period, indicating a statistically significant difference in returns between high and low ESG companies in the overall market. This effect, however, vanishes in the shorter-term perspectives (3 years: $p = 0.23$; 1 year: $p = 0.88$), highlighting the necessity of a lengthy observation period for ESG-related financial differentiation.

A benchmark market comparison reveals that even the Nifty 50 index, which represents average market risk and return, is more stable and less volatile than the majority of sectoral companies. The most unpredictable are the weak ESG outliers. In volatile markets, stable, lower-risk investment options are provided by strong ESG companies and the index itself (Zheng et al., 2022).

Sectoral analysis shows that the weak ESG companies sometimes dominate returns (e.g., Moschip Technologies and Marksans Pharma), but their high returns are accompanied by significant price fluctuations and high beta. Across manufacturing and IT Strong ESG firms seem to offer steadier, lower-volatility performance with less pronounced differentiation in logistics and pharmaceuticals (Mohanty et al., 2021). Statistical tests across 1, 3, and 5 years confirms that significant differences in performance tied to ESG ratings only emerge over a five-year period when all sectors are considered. Differences are not significant at the sector level or shorter time frames. Investors are cautioned that while weak ESG firms may deliver outsized gains, these are often speculative and accompanied by higher risk. More stability is provided by strong ESG companies which is preferable for those with lower risk tolerance or long term investment (Broadstock et al., 2021).

Suggestions: It is suggested that **prioritize stability over maximum return for investors.** While weak ESG companies can deliver enormous returns, these come with affected volatility and keen market risk. Investors with lower risk tolerance or longer horizons should errand companies with strong ESG ratings, as their returns, though sometimes lower, are more predictable and less subject to risky swings (Ashwin Kumar et al., 2016). The holistic analysis of the companies is required. ESG scores are just one input—company fundamentals, industry trends, and macroeconomic condition must be evaluated. Do not depend on solely on ESG ratings to forecast future returns, especially for short- and medium-term investment horizons. Investors should note that ESG's impact on returns differs by industry; in manufacturing and IT, weak ESG companies are more likely to deliver outsized (but risky) returns, while in logistics and pharma, the differentiation is less pronounced (Yoon et al., 2018).

Firms seeking to appeal to stability-focused investors should leverage ESG enhancements, particularly governance and transparency, to drive down risk metrics and volatility (Stempler, 2021). Given that Indian markets and research emphasize governance as the most influential ESG pillar, companies can exploit investor confidence and valuation by emphasizing board independence, ethical conduct, clear exposes, and effective management policies (Primafera et al., 2025). Proactive, transparent reporting of ESG initiatives builds stakeholder trust and may attract both domestic and international funds, especially as regulatory frameworks (e.g., BRSR) need more robust disclosure policies (Bell & van Vuuren, 2022).

Conclusion: Integrating ESG in India's capital markets is necessary for risk management, sustained investor confidence, and corporate longevity. Over 5 years and across all sectors, strong ESG companies tend to provide statistically significant superior risk-adjusted returns and lower volatility, making them suitable for long-term value creation. Sectoral differences exist, but weak ESG firms' high returns are typically speculative and expose investors to greater drawdowns due to higher volatility and market sensitivity (Mendes, 2022). The predictive power of ESG ratings is best realized over extended periods not in the short term or within individual industries reinforcing the importance of patience and strategic alignment in ESG investing. The evolving regulatory environment, especially SEBI's BRSR framework, will continue to raise disclosure standards and transparency, benefiting strong ESG performers (Wedajo et al., 2024). All-inclusive approach is necessary for investors, bringing together ESG scores with company fundamentals, sector trends, and macroeconomic context. The companies, prioritizing governance and clear ESG reporting builds market legitimacy and can reduce capital costs.

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