



Original Article

A Study on the CSR and ESG Investing Effects on Mutual Fund Performance in India

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Abstract

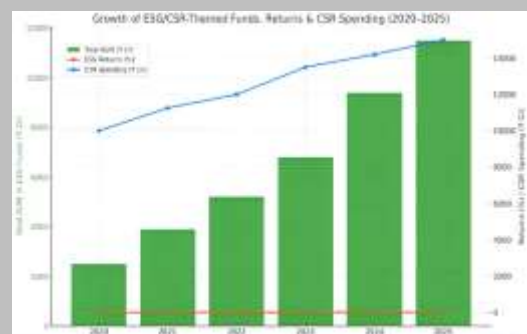
Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) are becoming important determinants in the investment process against the background of the evolving capital market in India. The following study will analyse the Indian mutual funds' performance throughout 2020-25 in order to explore the ways in which the CSR initiatives and ESG-based investing merge with the portfolio performance. There is empirical support that mutual funds which incorporate the ESG measure produced better risk-adjusted returns and especially when the market is turbulent hence appeal to investors who need sustainable growth over a long-term perspective. It is important to note that the presence of ESG-themed funds and the total value of their Assets under Management (AUM) has been on the increase; however, it is still subject to limitations of greenwashing, lack of historical data, and infrastructural deficiency of retail awareness. These findings are reflective of the nature of regulatory powers, investor behavior, social screening and how they influence the performance of ESG treated linked mutual funds and hence a positive but moderate possibility of ESG- and CSR-compatible investing in mutual fund industry of India.

Keyword: Corporate Social Responsibility (CSR), Environmental, Social and Governance (ESG), Mutual Funds, Fund Performance

Introduction

In recent years, the operation of the capital markets in India has been subject to significant change as more credence has been put on upholding sustainability, ethical investing, and good governance. One of the most crucial aspects of this development is that the systematic inclusion of the Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) factors into investing has become a standard process. At a worldwide level, ESG and CSR factors have moved beyond the fringes to be a matter of portfolio management. Modern investors are becoming more demanding of their capital as they seek to get long-term sustainable results. This attitude itself has resulted in a change in the corporate behavior and the design features and performance features of mutual funds of India. These forces are reflected in the mutual fund industry, which is a crucial cog in the financial ecosystem within the country now since there is the formation of funds that focus on ESG and asset management companies (AMCs) seem to strategically prioritize CSR-conscious enterprises.

The study is expected to identify how CSR and ESG-related aspects can affect the performance of the mutual funds by referring to the secondary information and trends, along with the applicable regulatory frameworks. The analysis also explains the process by which the ESG and CSR commitments affect the risk-adjusted returns and determine the behavior of the investors in India.



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CSR and ESG Investing: Context and Framework

1 CSR Regulations and Influence

Even though, the companies act of 2013 requires the business organizations that meet the minimum of any of the three thresholds such as net worth of 500 crore, a turnover of 1000 crore or profit inlet of 5 crore, to reserve at least 2 percent of the average net profits they have produced over past 3 years as the corporate social responsibility (CSR) activities. There is no clear stipulation on the mutual fund to undertake CSR directly; nonetheless, it invests funds in firms that have to perform CSR. This means the portfolio of any particular mutual fund must necessarily be determined by the CSR policies of the companies in which the mutual fund invests. Empirical researches show that, similarly, the desire to implement such initiatives either in educational, health, sanitation or in renewable energy sectors can positively impact on how a firm is perceived by the people who may want to be its investors and instil confidence that the firm regards its investors and the public as a whole. In terms of investment-management perspective, CSR serves as a proxy on ethical governance and stakeholder-value focus of the company, hence act as a means of avoiding the operational and reputational risk.

2 ESG Investing: Global and Indian Developments

ESG investing can be referred to as the process of using environmental, social, and governance factors in the financial examination and investment methodology. As per the estimates published by Bloomberg Intelligence (2022), the ESG assets surpassed 35 trillion dollars all over the world at the end of 2021. In the Indian case, the move of the Securities and Exchange Board of India (SEBI) to launch the Business Responsibility and Sustainability Report (BRSR) to the leading 1000 listed organizations in 2021²² is an historical event. This policy alteration made it easier to enhance the integration of ESG aspects of the system using mutual fund managers. Indian asset-management firms (AMCs) have, therefore, risen to make a series of assessments of ESG scores, climate risks, gender diversity scores, and board compositions, labour dynamics, and supply chain mindfulness at the choice of equities.

Notable Indian ESG mutual funds include:

- SBI Magnum ESG Fund
- Axis ESG Equity Fund
- ICICI Prudential ESG Fund
- Kotak ESG Opportunities Fund

These funds cater to retail and institutional investors looking for value-aligned investments with sustainable and ethical impact.

ESG in Mutual Fund Portfolios

1 Growth of ESG Funds in India

Since the start of the first ESG fund, SBI Magnum ESG Fund, in 2018, the asset under management (AUM) of the ESG asset fund segment has been showing significant growth in a relatively small scale, compared to that of the global peers. The higher number of ESG fund launchings that was observed in 2020-2023 was predetermined by the following reasons the growth in the regulatory focus on ESG-related disclosures, the growth in the interest on the part of foreign investors, the constantly rising popularity of ESG investing among the mainstream audience; and the influence of large distributor platforms.

- Growing awareness among investors
- ESG becoming a regulatory priority
- Global investors pushing for cleaner, sustainable portfolios

According to AMFI, ESG AUM in India crossed ₹15,000 crore by mid-2023. Though this is a small portion of India's total mutual fund AUM (~₹50 lakh crore), the trajectory is promising.

2 Performance Characteristics

Empirical studies using secondary sources (e.g., Morningstar India, Value Research Online) have shown:

- ESG funds outperform during market downturns due to reduced exposure to volatile and non-compliant companies.
- Companies with strong ESG scores tend to have lower cost of capital, higher operational efficiency, and better stakeholder relationships.
- ESG funds often show moderate volatility and better Sharpe ratios compared to traditional funds, especially in the mid- to long-term horizon.

However, short-term underperformance may occur due to sectoral exclusions (e.g., energy, mining, alcohol, tobacco) that typically offer high returns during bull markets.

3 Modes of ESG Integration

ESG investing in mutual funds involves multiple approaches:

- Exclusionary screening: Avoiding sectors such as gambling, fossil fuels, or weapons.
- Best-in-class selection: Investing in companies with top ESG performance within each sector.
- Thematic investing: Focusing on specific ESG themes like clean energy or water conservation.
- Active ownership: Fund managers engaging with companies to improve ESG practices.

Challenges and Risks

1 Greenwashing and Reporting Gap

Greenwashing is one of the issues of ESG investing. The practice implies the greenwashing of the enterprises, or funds. The lack of ESG rating systems that everybody agrees with also makes the already difficult task of fund managers who want to rank the performance of corporations along sustainability axes with homogeneity. The concern is increased by the fact that in

ratings, there is a variance across assessments, including MSCI, CRISIL, S&P, and Sustainalytics which means that there is a possibility of this variance causing bias in process of selecting funds and in the portfolio composition as well.

2 Limited Historical Data and Retail Participation

The growth of ESG focused mutual funds in India is relatively new thus does not have much longitudinal empirical structure to be used in strong scholarly analysis. In addition, retail investor awareness of ESG and corporate social responsibility (CSR) criteria is at a scanty level, with institutional and high net-worth individual (HNI) investor participation being the major contributors of fund-raising in terms of capital flows. In turn, regulatory agencies and fund's managers are supposed to enhance investor education programs, promote standardization of disclosures, and improve categorical disclosure on the part of fund documents and marketing to deepen the levels of confidence of would-be participants.

3 Sectoral and Regulatory Constraints

In the wider scope of the Indian growth plans, fossil fuels and thermal power industries still continue to dominate the GDP and job quotient. This also means exchange-traded funds that particularly blacklist such sectors have a risk losing in growth opportunities. At the same time, ESG regulatory framework in India remains very nascent and, at present, non-financial disclosures lack the effective enforcement mechanism that would amplify the impact of the framework.

Conclusion

CSR, ESG investing has become central considerations in the financial markets of India which had been moving on the periphery as a phenomenon. The practice of mutual funds integrating sustainability and ethical responsibility criteria into the portfolio building is gaining prominence and is part of regulatory incentivizing as well as changing investor demands. Secondary data show an embryonic promising tendency: the ESG-and CSR-devoted funds in India are embryonic in nature, and the correlation between them is positive with long distance, risk adjusted performance. Notwithstanding these patterns, the lack of consistency and low involvement of the retail level in terms of greenwashing and consistency can still be problematic and is only possible to correct through the renewal of policy adjustment, ESG literacy, and corporate purpose. It can be assumed that these hindrances will lessen as time goes by.

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Conflicts of Interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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