



Environmental  
Factors



Governance  
Practices



Social Impact

# ESG

**BUSINESS OUTPERFORMANCE:  
ETHICAL IMPACT**

ESG or Environmental, Social and Governance are three essential elements of businesses today. What was initially viewed as an added compliance, is now regarded as a vital part of business strategy. This reflects the growing appreciation of the importance of managing ESG issues as a core part of business, and the potential risks involved in ignoring them. A company's business stakeholders are increasingly considering ESG performance while determining future business dealings. The evidence is overwhelming: Good E&S management and governance improve business performance. Integration of these value-creating practices provides powerful synergy for innovation, competitiveness, and business growth



ENVIRONMENTAL

Greenhouse gas emissions, carbon footprint  
 Pollution & Waste Management  
 Biodiversity, water and land use  
 Depletion of resources/deforestation



SOCIAL

Employee relations & diversity  
 Equitable working conditions  
 Development of local communities  
 Health, safety and security



GOVERNANCE

Board diversity and structure  
 Management and internal controls  
 Donations and political lobbying, corruption and bribery  
 Transparency and disclosures

## ESG - The Global Scenario

- The EU's Sustainable Finance Disclosure Regulation (SFDR), which came into effect in March 2021, is designed to drive capital toward sustainability oriented investments
- Corporate Sustainability and Reporting Directive (CSRD) by EU also introduces tougher reporting requirements and audits of ESG related information
- In US, SEC (Securities Exchange Commission) has launched a task force to address ESG related issues in line with government's sustainability policy
- The Investment Company Institute Board, USA - enhanced ESG disclosures by public companies
- Sustainable Development Goals (SDGs), the United Nations Guiding Principles on Business & Human Rights (UNGPs), are now advocated across the globe
- Introduction of global sustainability disclosure standards IFRS S1 and IFRS S2 by International Sustainability Standards Board (ISSB) to promote the integration of sustainability-related financial information with financial statements.

## ESG in India – The Law

- The Securities Exchange Board of India (SEBI) makes it mandatory for the top 1000 listed companies (by market capitalization) to furnish a Business Responsibility and Sustainability Report (BRSR) based on the 9 principles of the Indian government's National Guidelines on Responsible Business Conduct.
- Market regulator SEBI has introduced a reasonable assurance requirement for select KPIs of ESG (BRSR CORE) in a phased manner to the listed entities.

## ESG & You

Sustainable ESG strategies increase business resilience and help improve overall company performances

- Stakeholders such as customers, employees, shareholders, vendors, investors, etc. want to know about the company's ESG efforts.
- Attracting top talent at operational or board level now requires a strong ESG positioning
- Strong ESG positioning leads to preferential treatment from investors
- ESG has direct impact on your business valuation – over 25% of listed companies globally are ESG rated
- The BP oil spill and Volkswagen emissions scandal proves that public and media scrutiny on a laggard ESG performance can seriously damage your valuation, brand and reputation

## ESG and Business Valuations

Based on the ESG Assessment, primarily the compliance check, our teams re-work the impact on the business valuation. There are prescribed guidelines to valuation calculations incorporating the ESG impact when using valuation techniques like cost approach, sales comparison approach, income approach, etc. Our teams are well geared and understand the impact of identified ESG gap on the business valuation.

Benefits of ESG Valuation

- Facilitate better negotiation by integration of ESG factors into M&A price & Share Purchase Agreement
- PE/VC funds get investee companies that perform better in the long run including offering a higher return on capital, stronger value creation and better management of longer term risks
- Companies with ESG valuations get larger access to a larger pool of investors including ESG focused funds, sustainability funds and impact funds etc.
- Better risk management and better performance for ESG compliant investments

## ESG Roadmap

### ESG Services/Due Diligence

ASA's ESG advisory team assists companies in formulating an ESG framework and strategy post a diagnostic check in line with global best practices and also offers impact assessments for strategic investors on targets to check for non-compliances with regulatory and non-regulatory ESG parameters.

Our phase wise approach to ESG compliance

|              | Phase 1   | Phase 2  | Phase 3  |
|--------------|---|--|--|
| Objective    | Compliance with ESG regulatory requirements   | Building the ESG framework   | Consolidating ESG into mainstream business strategy  |
| Activity     | <ul style="list-style-type: none"> <li>Assess current status of ESG compliance</li> <li>Document / Information Review</li> <li>Preliminary identification of potential risk factors</li> <li>BRSR reporting</li> <li>BRSR Core assurance</li> </ul> | <ul style="list-style-type: none"> <li>Establish ESG framework</li> <li>Compare to industrial/ sector specific best practices</li> <li>Identify obvious ESG deviations</li> <li>Communicating to stakeholders and staff</li> </ul> | <ul style="list-style-type: none"> <li>Design an ESG Management System</li> <li>Form an ESG committee</li> <li>Integrate ESG culture into corporate structure</li> <li>Define monitoring capabilities with robust controls, processes and governance</li> <li>Communicating to stakeholders and staff</li> </ul> |
| Deliverables | <ul style="list-style-type: none"> <li>ESG Compliance Review Report</li> <li>Reasonable assurance report on ESG Core KPIs.</li> </ul>   | ESG Assessment Report  | ESG MS with a Monitoring Mechanism   |
| Timelines    | 2-4 weeks   | 4-6 weeks  | Quarterly / Bi-Annual  |

### Benefits of an ESG Assessment

- Reduce operational cost by lower energy consumption
- Helps boost top line growth by manufacturing sustainable products
- Identify potential risk and material issues for the buyer or investor
- Flagging community / labour issues
- Improve favorable ranking and reputation amongst customers, suppliers and regulators
- Asset optimization by allocating capital to more sustainable plant and equipment

## Meet the Experts



**Subir Gupta**

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Subir is a Chemical Engineer with over 40 years' experience in Sustainability, including Environmental Social & Governance (ESG) assessments and Due Diligence, Environmental, Health & Safety Management, Process Safety Management, Hazardous Waste Management, Site Investigation, Environmental Impact and Risk Assessment.



**Hemant Agnihotri**

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Hemant, an IIM-K alumnus has over 17 years of experience in corporate finance and investment banking with exposure across the entire spectrum of a deal cycle including partner search, valuation, financial modelling, structuring and negotiations. He also advises client on ESG related issues impacting M&A and PE transactions and their valuations



**Vinay KS**

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Vinay is a chartered accountant with over 17 years of experience in auditing and accounting consultancy services. He specializes in Corporate Audit Services, Risk Assessment, Internal Audit, System Reviews and J-SOX. He is actively advising clients on ESG regulatory framework and on governance parameters.



**Gaurav Bhatia**

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Gaurav is a Chartered Accountant with over 12 years of experience. He holds a certification in Forensic Accounting & Fraud Detection and BRSR from ICAI and has significant expertise in Quality Assurance Reviews, Corporate Audit Services (Indian GAAP), Internal Audits and advising on social and governance parameters measuring the sustainability impact.



**Sivaraman V**

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Sivaraman is a Chartered Accountant, Information System Auditor and holds certification in IFRS and BRSR from ICAI and certified as a Social Auditor by NISM. He has over 11 years of experience in assurance functions and supports clients on BRSR reporting requirements.

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\* This document has been prepared as a service to the clients. We recommend that you seek professional advise prior to initiating action on specific issues.



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