

Sustainable Finance, Clear Mandate

Why It is India's New Corporate Baseline



Harish H.V.
Founder & Director
ECube Investment Advisors
Pvt.Ltd.

This article examines why sustainable finance is key for India to achieve economic growth in a sustainable manner.

Introduction

The narrative surrounding corporate India's relationship with the environment has undergone a fundamental paradigm shift. A decade ago, environmental sustainability was comfortably relegated to the pages of Corporate Social Responsibility (CSR) brochures—a discretionary, philanthropic afterthought. Today, that luxury has evaporated. Driven by escalating climate vulnerabilities, societal disparities and market sustainable finance is transitioning from a progressive choice to an existential imperative.

As one of the world's fastest growing major economies and a nation highly vulnerable to climate risks, India faces a dual challenge: sustaining rapid development while safeguarding environmental and social stability. In this context, sustainable finance needs to move from the periphery to the core of financial decision making. What was once viewed as a niche or voluntary practice now becomes an economic, regulatory, and strategic imperative for investors, lenders, and companies. For investors and lenders, the question is no longer "Should we integrate sustainability?" but rather "How quickly can we adapt?" This is no longer about ethical positioning; it is about economic survival.

As India targets net-zero emissions by 2070 and aims to meet 50% of its electricity requirements from renewable energy sources by 2030, the financial sector needs to recalibrate itself to serve as the primary engine of this transition.

India also faces social challenges of disparities in terms of income, wealth, education, gender, all of which are key for corporates to prosper in the long run. Failing to acknowledge and address them in the current businesses and devising solutions to address these itself can be a significant business opportunity.

For financial institutions, integrating Environmental, Social, and Governance (ESG) metrics into risk assessment is the new baseline for capital preservation and growth in an environment where ignoring these factors is likely to lead to significant value destruction. Institutional investors now need to no longer evaluate companies purely on quarterly profits but examine whether business models are resilient, ethical, climate-aware, and socially responsible.

For Indian corporates, transitioning to sustainable business practices is key to long-term survival and growth, and it is fast becoming the sole mechanism to safeguard access to affordable capital. This article seeks to analyse the issues concerning sustainable finance and explain why it is a critical focus area for India Inc.

1. The Macro Context: India's Unique Climate, Social and Economic Vulnerability

To understand why sustainable finance has become non-negotiable, one must look at the unique macroeconomic vulnerabilities India faces. India sits at a precarious intersection: it is one of the world's fastest-growing major economies, yet it is also one of the most vulnerable to climate change and faces steep and growing disparities in income and wealth.

Businesses and investors face three fundamental risk vectors if they fail to integrate climate issues into their core frameworks:

- **Physical Risks:** Extreme weather events (floods, heatwaves, droughts) that result in direct damage to corporate assets, immediate operational disruption, and severe supply chain impairments.
- **Transition Risks:** Structural shifts toward a low-carbon economy driven by rapid policy tightening, carbon pricing mechanisms, and the accelerating obsolescence of high-carbon assets (Stranded Asset Risk).
- **Business Risks:** Escalating capital constraints, including higher costs of borrowing, rising insurance premiums, potential uninsurability, and the systemic loss of domestic and export customers who favour sustainable alternatives.

According to global climate risk indices, extreme weather events regularly cost India billions of dollars annually in economic losses, deeply impacting sectors ranging from agriculture and infrastructure to manufacturing and real estate. For investors and banks, these climate risks translate directly into poorer returns or a surge in Non-Performing Assets (NPAs).

Simultaneously, the global and domestic push toward a low-carbon economy introduces severe transition risks. As regulations tighten, carbon pricing mechanisms emerge, and consumer preferences shift, high-carbon industries—such as coal-fired power, traditional automotive manufacturing, and heavy chemicals—face rapid asset obsolescence.

Lenders and investors heavily exposed to these sectors risk being left holding stranded assets that lose value rapidly, while companies that fail to decarbonize face structural bankruptcy.

Simultaneously India has a number of societal issues with huge income and wealth disparity challenge which is growing coupled with unemployment or inadequate employment plus gender related disparities. As mentioned, these also need to be addressed by business as part of their commitment to their stakeholders and can also create significant business opportunities.

2. The Regulatory Imperative: Driving the Mandate

The transition from a voluntary framework to a mandatory one has been accelerated by India's financial and corporate regulators. The regulatory ecosystem has effectively been used to enforce sustainability.

The RBI has progressively integrated climate risk into its systemic financial stability assessments. It has explicitly recognized climate change as a systemic financial risk, placing sustainable finance firmly within the prudential regulatory framework. The RBI has issued a series of guidelines that make sustainability integration unavoidable, focusing on:

- Disclosure requirements on climate-related financial risks.
- Expectations for governance and board oversight of climate strategy.
- Stress testing and scenario analysis for climate risks.
- Guidance on green deposits and use-of-proceeds frameworks.

For listed corporates (particularly the top 1,000 companies), the Securities and Exchange Board of India (SEBI) fundamentally altered the corporate reporting landscape with the introduction of the Business Responsibility and Sustainability Report (BRSR). Moving beyond standard, qualitative disclosures, SEBI introduced the BRSR Core framework—a subset of quantifiable, assurance-ready KPIs that top listed entities must mandatorily disclose. Crucially, this mandate extends to value-chain disclosures, forcing even unlisted small and medium enterprises (SMEs) acting as suppliers to larger corporates to track and report their ESG metrics.

Furthermore, the government's active development of a formal sovereign green taxonomy provides a structured, legally sound definition of what constitutes a "green" or "sustainable" activity. Once implemented, investors, lenders, and companies will have clear rules of engagement. This is expected to eliminate the pervasive threat of greenwashing (falsely marketing a product or company as environmentally friendly) and give investors/lenders an unshakeable benchmark for capital allocation.

3. The Investor Imperative: Risk Mitigation and Value Creation

For investors and lending institutions, adopting sustainable finance is key to both capital preservation and capturing the next wave of macroeconomic growth.

Advanced Risk Assessment

Traditional risk models that exclusively evaluate historical financial statements, debt-service coverage ratios, and collateral are dangerously incomplete. A company with stellar cash flows today could become unviable tomorrow if an unmitigated environmental liability surfaces, or if its primary export market slaps a steep carbon border adjustment tax on its goods. Investors need to integrate ESG scoring into their risk architecture. Higher ESG risk now directly translates to lower credit ratings, shorter debt tenors, or higher risk premiums.

Access to Global and Sustainable Capital

Indian banks and companies seeking capital from global investors will find that the international pool of institutional capital is increasingly ESG-mandated. Asset managers, sovereign wealth funds, and multilateral development banks are explicitly restricting funding to institutions that possess clear, verifiable sustainable frameworks. By issuing Sovereign Green Bonds and corporate green or blue bonds, entities can tap into highly liquid, lower-cost global capital pools. Conversely, companies remaining heavily exposed to unabated fossil fuel or high-pollution portfolios will find their own cost of funds escalating dramatically.

Disclosure: The company that the author has founded has a partnership with the Stock Exchange of Mauritius (SEM) in its Sustainable Finance Board, focused on creating a sustainable finance hub for Africa and Asia.

The Business Case: Sustainability Drives Profitability

Sustainable finance is often misunderstood as a compliance burden; in reality, it is a premier growth frontier. Evidence shows that anchoring a portfolio in sustainability yields tangible financial advantages:

- **Lower Operating Costs:** Systematic energy efficiency, waste reduction, and resource optimization directly insulate a company's bottom line from volatile commodity cycles.
- **Higher Productivity:** Companies with strong, transparent ESG metrics consistently attract and retain top-tier talent, lowering turnover and boosting operational productivity.
- **Increased customer base:** Addressing social issues increases the addressable population for many businesses and it also helps capture market segments that are focussed on buying products and services from Sustainable companies.
- **Long-Term Value Creation:** Sustainable businesses regularly outperform their peers in profitability, regulatory resilience, and long-term investor confidence.

4. The Company Imperative: Securing Capital and Preserving Enterprise Value

Financing India's transition requires astronomical sums—estimated in the trillions of dollars over the coming decades. The global sustainable bond market is in excess of \$1 trillion. While India currently holds a minuscule share of this market, leveraging it actively allows India Inc to diversify its investor base, signal sustainability intentions, and drive down capital costs.

If investors and lenders are the gatekeepers of capital, corporates are its consumers. For Indian enterprises—spanning conglomerates to mid-market manufacturing companies—incorporating sustainability into core business strategies is becoming the defining variable for maintaining enterprise value.

The most immediate operational impact for borrowers is the pricing of debt. As banks face pressure to green their loan books, a visible pricing dichotomy has emerged. Borrowers with poor ESG profiles, a lack of carbon-mitigation plans, or inefficient resource usage are encountering a structural penalty: higher interest rates, stricter covenant requirements, and, in some carbon-heavy sectors, an outright contraction of credit availability.

Indian corporates do not operate in a vacuum; they are intricately woven into global supply chains. With international frameworks like the European Union's Carbon Border Adjustment Mechanism (CBAM) taking active effect, Indian exporters who fail to measure, verify, and lower their carbon footprints will find themselves structurally locked out of premium global markets. Furthermore, domestic large-cap entities, bound by SEBI's value-chain reporting directives, are actively auditing their domestic vendor bases. An Indian SME that refuses to adopt basic sustainable practices will likely find itself disqualified from serving as a vendor to Tier-1 corporates.

5. Structuring the Sustainable Finance Ecosystem: Instruments at a Glance

Leveraging Innovative Sustainable Instruments

Forward-looking companies are utilizing sustainable finance tools to actively lower their financing costs through highly specialized corporate instruments:

- **Green Bonds / Green REITS/Sustainability Bonds:** Green bonds are bonds where the use of proceeds is earmarked exclusively for verified eco-friendly projects, such as setting up a captive solar plant, transitioning a manufacturing unit to zero-liquid discharge, or supporting a defined social cause (e.g., women's empowerment, rural development). If the use of funds can be demonstrably linked to the enhancement of any of the United Nations list of Sustainable Development Goals (SDGs), it can tap into targeted, lower-yield investment pools. Real estate companies can raise capital through issue of Green REITS where the underlying assets are Green Buildings with appropriate certification and access funds from investors who are focussed on Sustainable Investments.
- **Sustainability-Linked Loans (SLLs):** Highly dynamic corporate loan facilities where the interest rate (coupon) is explicitly tied to the borrower meeting pre-agreed Sustainability Performance Targets (SPTs)—such as a 10% reduction in greenhouse gas emissions intensity or achieving specific water-recycling benchmarks within three years or serving rural women or uplifting people from poverty. If the borrower meets the targets, the interest rate steps down, directly saving millions in financing costs; if they fail, the interest rate steps up.

Fundamentally all Sustainable debt finance can be classified into four groups as detailed in the table below.

Instrument Class	Core Mechanics	Primary Use Case in India	Primary Benefit to Stakeholders
Green Bonds / Blue Bonds	Fixed-income instruments where proceeds are strictly ring-fenced for green asset creation or marine preservation projects.	Financing grid-scale solar parks, wind farms, or municipal wastewater treatment plants.	Lenders: Attracts ESG-focused global institutional investors. Borrowers: Provides long-tenor, stable financing for capital-intensive infrastructure.
Sustainability-Linked Loans (SLLs) & Bonds	Debt facilities where interest margins fluctuate based on the borrower's verified progress against custom ESG performance metrics.	Corporate decarbonization, scaling up supply-chain diversity, or improving hazardous waste management linked to SDGs, employment generation, Gender related activities.	Lenders: Ensures continuous, verifiable risk reduction in the loan book. Borrowers: Directly rewards operational efficiency with reduced borrowing costs.
Transition Finance	Funding explicitly designed for hard-to-abate sectors to systematically shift away from high-carbon baselines without triggering abrupt defaults.	Upgrading blast furnaces in steel manufacturing to cleaner fuel blends or improving thermal efficiency in cement plants.	Lenders: Prevents sudden portfolio defaults by supporting vital economic sectors through a structured pivot. Borrowers: Avoids premature asset stranding and business extinction.
Blended Finance Structures	Combining concessional capital from development banks/philanthropies with commercial capital to de-risk pioneering technologies.	Initial rollout of green hydrogen infrastructure, grid-scale battery storage installations, or carbon capture technology.	Lenders: Mitigates early-stage technology risks through public-private risk sharing. Borrowers: Makes cutting-edge, high-capex decarbonization technology economically viable.

6. Overcoming the Friction Points: Challenges in the Indian Landscape

While the imperative is undeniable, the deployment of sustainable finance in India faces significant systemic hurdles that require concerted cross-sectoral action.

The Data Deficit and Greenwashing Risks

The bedrock of sustainable finance is verified data. In India, while top-tier listed enterprises possess the resources to produce comprehensive BRSR data, the broader mid-market and SME ecosystems suffer from a severe data deficit. Fragmented tracking, an absence of historical baselines, and a lack of standardized metrics make it incredibly difficult for investors to accurately assess a company's true ESG risk profile. This informational asymmetry fosters an environment vulnerable to greenwashing, where minor, superficial adjustments are marketed as profound sustainable transformations. To counter this, alignment between global disclosure standards and Indian developmental realities must improve, backed by digital validation solutions like blockchain traceability and AI-driven analytics.

The “Green Premium” and Capex Inertia

Transitioning to sustainable operations invariably demands substantial upfront capital expenditure (Capex)—whether it involves upgrading manufacturing equipment, integrating smart energy grids, or re-engineering supply chains. This upfront cost represents a steep “Green Premium.” Companies need to access innovative global lower cost capital and leverage the benefits of being sustainable to offset the costs and take longer term views while implementing such projects.

Capacity and Expertise Bottlenecks

Sustainable finance requires a unique synthesis of financial acumen and environmental science. Traditional evaluation techniques of evaluating financial statements are not enough. They need to think about quantifying carbon equivalents, evaluate Scope 3 supply-chain emissions, gender balance issues, poverty alleviation or assess the long-term hydrological risks of a factory location. Bridging this skill gap requires extensive institutional capacity building; its absence currently slows down the velocity of sustainable finance.

7. The Roadmap Forward

India's sustainable finance journey differs fundamentally from that of developed economies. While developed markets can focus almost exclusively on rapid decarbonization, India must pursue sustainability alongside acute developmental priorities such as poverty reduction, affordable energy access, infrastructure growth, and financial inclusion.

To accelerate this transition and solidify sustainable finance as a natural pillar of the Indian financial architecture, a collaborative roadmap must be executed by all core stakeholders:

- **For Regulators (Incentivization and Standardization):** Regulators can move beyond mandates to include proactive incentives. The RBI could explore policy innovations such as integrating sustainable lending targets under the Priority Sector Lending (PSL) framework or optimizing statutory liquidity reserve allocations for green asset portfolios. Finalizing a clear, comprehensive, and globally interoperable Indian Green Taxonomy will also give the market absolute clarity and prevent capital fragmentation.
- **For Investors and Lenders (Technical Integration and Scale):** Investors and Lenders must invest heavily in building technical capacity. Establishing dedicated ESG verticals staffed with environmental scientists, engineers, and sustainable finance experts is critical. Furthermore, they must simplify the process for smaller company's by providing standardized templates, subsidizing external ESG rating costs, and offering bundled transition advice alongside funding strategies to actively capture large-scale opportunities across clean mobility, waste management, and sustainable infrastructure.
- **For Companies (Radical Transparency and Operational Alignment):** Companies must stop viewing ESG compliance as a reactive checkbox exercise for the annual report and start viewing it as a core component of corporate strategy. Enterprises should proactively invest in robust digital accounting tools to measure resource consumption and emissions in real time. By establishing transparent, verifiable baselines, companies can step forward as high-quality, de-risked counters, commanding premium terms from the investing community.

Conclusion

Sustainable finance is no longer a future aspiration—it has become the foundation of modern finance. In India, this transition is driven by climate and social realities, regulatory evolution, investor expectations, global capital flows, and changing market dynamics.

For investors, integrating sustainability is essential for risk management, portfolio resilience, regulatory preparedness, and long-term competitiveness. For companies, sustainability increasingly determines access to capital, cost efficiency, market relevance, and investor confidence.

India's growth ambitions and sustainability commitments are deeply interconnected. The country cannot achieve long-term economic prosperity without financing sustainable development, and sustainable development cannot

succeed without strong financial sector participation. The future winners in India's financial ecosystem will not merely be those with the largest balance sheets, but those capable of aligning profitability with resilience, responsibility, and sustainability. It is an economic imperative, a strategic necessity, and ultimately, a defining pillar of the country's future growth story.
