



ESG Funds Becoming Popular in India

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Why in News

The ESG funds are increasingly becoming popular in the **mutual fund industry** in India. Recently, **ICICI Prudential Mutual Fund** has come out with its ESG fund.

The **first ESG mutual fund was launched by the State Bank of India - SBI Magnum Equity ESG Fund.**

Key Points

- **ESG Fund:**
 - ESG is a combination of three words i.e. **environment, social and governance.**
 - It is a **kind of mutual fund.** Its investing is used **synonymously with sustainable investing or socially responsible investing.**
 - Typically, a mutual fund looks for a good stock of a company that has **potential earnings, management quality, cash flows, the business it operates in, competition** etc.
 - However, while selecting a stock for investment, the ESG fund **shortlists companies that score high on environment, social responsibility and corporate governance,** and then looks into financial factors.
 - Therefore, the **key difference** between the ESG funds and other funds is **'conscience'** i.e the ESG fund focuses on companies with environment-friendly practices, ethical business practices and an employee-friendly record.
 - The fund is regulated by **Securities and Exchange Board of India (SEBI).**
- **Reason for Popularity:**
 - Modern investors are re-evaluating traditional approaches, and look at the impact their investment has on the planet. Thus, investors have started incorporating ESG factors into investment practices.
 - The **United Nations Principles for Responsible Investment (UN-PRI)** (an international organization) works to promote the incorporation of environmental, social, and corporate governance factors into investment decision-making.

- **Impact:**

- As ESG funds gain momentum in India, **companies will be forced to follow better governance, ethical practices, environment-friendly measures and social responsibility.**
- Companies that do not follow sustainable business models will find it **tough to raise both equity and debt.**
- Globally, investors like pension funds, sovereign wealth funds etc. don't invest in companies that are seen as polluting, don't follow social responsibility or are tobacco companies.

The global tobacco industry profits per year come to USD 35 billion, however, it causes nearly 6 million annual deaths and investors are growing sensitive to such realities.

Way Forward

- A significant advantage of ESG compliant companies is that they will be on the safer side when the regulators come up with even more stringent rules.
- The scope for the ESG compliant companies to gain significant market share would be more compared to their non-compliant competitors.
- Being ESG compliant enhances the company's credibility and reputation several fold and is sure to attract investors due to their sustainability.

Source: IE