



Impact of ESG Rating on Financial Performance of Nifty 50 Companies

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Abstract

The study investigates the relationship between ESG and the financial performance of Nifty 50 companies in India for the year 2025. Financial performance was measured using Return on Equity (ROE), Return on Investment (ROI), Return on Asset (ROA), Earning Per Share (EPS) and Net Profit Margin (NPM). The data was collected from the annual reports of the company, BSE & NSE website, ESG reports of respective company. The data was analyzed through descriptive statistics, correlation and linear regression method. The result indicates weak relationship between financial metrics and negative relationship between EPS. Regression analysis finds that ESG rating doesn't have a significant relationship between financial metrics. The study reveals that ESG don't influence the financial performance of Nifty 2025.

Keywords: ESG, Financial Performance, Sustainability

1. Introduction

In 21st century Environmental, Social, and Governance factors are becoming vital due to legal framework and changing interest rate of bank, individual investor and institutional investor. Many businesses are revising their strategy in order to adopt changing environment. Businesses are not able to achieve the economic development in their operational and investment strategy without ESG goals. In addition to the latest report it is seen that company who are following ESG are better at maintaining crisis or uncertainty.

Stakeholder theory (Freeman, 1984) suggest that organization should focus on overall interest of stakeholders who are engaged directly or indirectly with business rather than making profit or creating value. Making investment in ESG allows business to improve its financial performance and to achieve competitive advantage in the market.

In modern times, the impact of ESG has been a matter of discussion in academia and research. The study investigates the performance of nifty 50 on ESG and its financial performance on environment by its expense and income incurred. Moreover, this study seeks to examine whether the ESG operation and performance scores of environmentally corporation have a positive or negative relationship.

2. Literature Review

G. Giannopoulos, 2022 in his study on Norway listed companies showed the performance of the company is affected, and there exist a positive relationship between ESG scores and company's performance. Financial performance of a company is measured through various measures like Return on Asset (ROA), Return on Equity (ROE), Return on Investment (ROI) and Earning Per Share (EPS). Nishitani and Kokubu, 2012; Jaychandran et al., 2013 in his study examined by using ROA, various measures are used for ESG disclosure and operational performance. Fatemi et al., 2015;

Malik et al., 2015 found positive correlation between ESG and ROA. Lyon et al., 2013 found a conflict between operational performance and ESG.

Ahmad et al., 2022; Albitar et al., 2020; Hongming et al., 2020; Deng and Cheng, 2019 found a direct relationship between financial performance and reporting on sustainability. Carter et al., 2000; Jo and Harjoto, 2011 found that financial performance was enhanced by reporting environmental practices. Duque-Grisales and Aquilera-Caracue, 2019; Landi & Sciarelli, 2019; Bessong and Tapang, 2016 found negative correlation between financial performance and sustainability reporting. After studying various literature mix literature reviews were found between ESG disclosure and financial performance.

Robert, A. Cross, 2023 indicates the positive risk return profile that promotes sustainable development in India. Raj, G., Anvekar, and Swapnil, Patil 2024, in his study found that out of 10 companies 3 companies outperform the Nifty 50 index promoting sustainability in India.

3. Materials and Methods

To analyze the relationship between ESG ratings and its financial performance, the data was collected from annual reports of company, website of BSE and NSE, annual ESG report of the company etc. on the financial performance of Nifty 50 companies for the year 2025.

Table – 1 Descriptive Statistics

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance	Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error
ROA	50	32.070	.530	32.600	9.266	1.01506	7.1776	51.518	1.727	.662
ESG Rating	50	67.2	17.8	85.0	66.966	1.7903	12.6596	160.264	4.270	.662
EPS	50	460.40	.60	461.00	80.230	12.21307	86.35946	7457.957	7.421	.662
ROE	50	85.45	1.85	87.30	21.296	2.23191	15.78200	249.072	8.565	.662
ROI	50	108.86	.64	109.50	20.346	2.50346	17.70216	313.366	13.392	.662
NPM	50	64.94	2.06	67.00	17.572	1.79383	12.68427	160.891	7.142	.662
Valid N (listwise)	50									

4. Statistical Analysis

The data was analysed through correlation and linear regression in SPSS software to know relationship between ESG scores and financial performance. Correlation measures whether ESG rating move in the same direction as ROA, ROE, EPS, ROI and NPM. Linear Regression analyse the impact of an independent variable on a dependent variable that is how does ESG influence on financial performance.

5. Results

The ESG rating and financial performance of the data are as follows:

Hypothesis

H1: There is no significant difference between ESG ratings on Return on Assets

H2: There is no significant impact of ESG ratings on Return on Equity

H3: There is no relationship of ESG ratings on Earning Per Share

H4: There is no significant impact of ESG rating on Return on Investment

H5: There is no significant difference between ESG rating on Net Profit Margin

Table- 2 Correlation Matrix

Variable	ESG Rating	ROA	ROE	EPS	ROI	NPM
ESG Rating	1.00					
ROA	0.17	1.00				
ROE	0.03	0.59	1.00			
EPS	-0.02	0.04	0.13	1.00		
ROI	0.21	0.77	0.72	0.08	1.00	
NPM	0.09	0.01	-0.06	0.08	0.06	1.00

From the above table we can see that there is different correlation between financial metrics and ESG Rating. It is seen that there exist almost no correlation between ESG Rating with ROE ($r = 0.03$) and NPM ($r = 0.09$). There is a negative correlation between ESG Rating and EPS ($r = -0.02$). There is a weak correlation between ESG rating and ROA ($r = 0.17$) and ROI. ($r = 0.21$)

Table-3 Correlation Decision

Hypothesis	Correlation	Decision
H1	0.17	Accepted
H2	0.03	Accepted
H3	-0.02	Accepted
H4	0.21	Accepted
H5	0.09	Accepted

Regression Analysis

Regression Analysis is a method used to find out the effect of independent variable on dependent variable. How change in one variable is affected by another.

$$Y = \alpha + \beta (\text{ESG Rating}) + \epsilon$$

where,

Y = ROA, ROE, EPS, ROI, NPM

α = Intercept

β = Regression Coefficient

ϵ = Error term

Table – 4 Regression Analysis

Dependent Variable	R ²	B Coefficient	Significance (p – value)	Decision
ROA	0.029	0.097	0.233	Accepted
ROE	0.001	0.028	0.847	Accepted
EPS	0.000	-0.021	0.887	Accepted
ROI	0.045	0.211	0.141	Accepted
NPM	0.007	0.086	0.553	Accepted

From the above table we can see that ESG ratings have weak/low relationship on financial performance matrices. The value of less R² tells that ESG ratings alone don't affect the financial performance of the company. As all the p value exceeds by 5% suggesting that ESG don't have a significant impact of financial metrics of Nifty 50 2025.

6. Conclusion

The present study tries to analyse the relationship between ESG ratings and financial metrics of Nifty 50 company of 2025. It is seen that ESG ratings do not have a positive relationship with ROA, ROE, EPS, ROI and NPM. Although ESG ratings has weak relationship with some financial metrics. From the regression analysis we came to know that ESG rating does not affect ROA. ROI has a significant role in variation. Further it suggests that ESG practices are very essential for maintaining the sustainability, governance and financial benefit can be achieved in longer time duration.

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