

**IMPACT OF ESG FACTORS ON BANKS' CREDITWORTHINESS:
EVIDENCE FROM INDIA**

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ABSTRACT

The Indian banking sector, which plays a critical role in the country's economic landscape, has yet to make a significant impact in implementing ESG policies. It is imperative to understand the impact of ESG reporting on the financial performance of banking sector companies in India given their significant influence on various stakeholders. This study examines the impact of Environmental, Social and Governance (ESG) on the efficiency of Indian public and private sector banks. It employs the two stage method where firstly, Data Envelopment analysis (DEA) method following variable returns to scale under input orientation method is implemented for measuring efficiency. Secondly tobit regression is used to check the significant impact of ESG indicators. The sample includes 12 public sector banks and 18 private sector banks of India for the tenure period 2016-2023. The study finds that the average efficiency scores of public sector banks (PSBs) are higher than private sector banks, environmental factor is found to have a significant impact on efficiency of banks, while governance factor was relatively significant and social factor was the least significant. Also, the private sector banks are performing better in terms of environmental factors adaption, and mitigation of credit risk. This study suggests policy measures regarding managing Non-performing assets (NPAs) and Business Responsibility and Sustainability Reporting (BRSR) 2021 for ESG should be more emphasised for both sets of banks.

Keywords : Public sector banks (PSBs), private sector banks, Non-performing assets (NPAs), credit risk, Data envelopment Analysis (DEA), Efficiency scores, Environmental, Social and Governance (ESG)