

SPECIAL ISSUE

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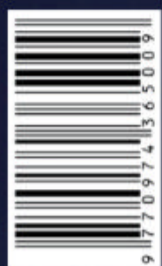
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INDIA'S MOST VALUABLE COMPANIES

N. CHANDRASEKARAN CHAIRMAN, TATA SONS AND TCS; **MUKESH AMBANI** CHAIRMAN & MD, RIL;
SANDEEP BAKHSHI MD & CEO, ICICI BANK

Accounting for

Sebi's stringent BRSR Core sustainability reporting mandate looks to enhance transparency while compliance may be a challenge for many top listed companies BY **NIDHI SINGAL**

GREEN RULES

- ▶ ESG is a set of metrics used to evaluate a company's performance on environmental, social, and governance issues
- ▶ Sebi introduced a voluntary framework called Business Responsibility Report (BRR) in 2012
- ▶ In 2021, the BRR was broadened into the Business Responsibility and Sustainability Report (BRSR) framework, mandating the Top 1,000 listed companies to disclose ESG-related information
- ▶ In July 2023, Sebi announced BRSR Core for ESG disclosures that looks to enhance transparency and combat greenwashing, but increases the compliance burden

SOURCE BT RESEARCH

Sustainability

ombating greenwashing. But meeting these might

ILLUSTRATION BY RAJ VERMA



IN 2021, THE Securities and Exchange Board of India (Sebi) took a big leap in promoting sustainable practices in companies by introducing a framework for reporting such actions. These incorporated the environmental, social and governance (ESG) impacts of businesses in a bid to future-proof them. Called the Business Responsibility and Sustainability Report (BRSR), the rules were an extension of an earlier initiative—the Business Responsibility Report (BRR)—that was introduced in 2012.

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Not content with these actions, two years after the launch of the BRSR that is mandatory for the Top 1,000 listed firms by market capitalisation, Sebi went one better and introduced the BRSR Core. This revised framework, introduced in 2023, is more expansive in its scope and requires companies to also account for the impact their value chain has on the environment.

Yet, 11 years after the first reporting framework was put in place, just 27 per cent of Indian

businesses were confident about ESG preparedness, per a Deloitte survey in May 2023. So, when Sebi introduced BRSR Core earlier this year to enhance transparency and combat greenwashing, boardrooms were abuzz trying to digest the implication of terms like reasonable assurance, value chain assurance, and more.

“The BRSR, and now the BRSR Core, are two of the most comprehensive and progressive non-financial disclosure frameworks to be rolled out globally. With questions ranging from an organisation’s environmental performance to its supply chain’s adherence to human rights,” says Niranjana Banodkar, Chief Financial Officer at YES Bank.

CORE COMPETENCE

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In the aftermath of the Covid-19 pandemic, there has been a realisation around the world of the need to make supply chains more resilient, says Sameer Jain, Managing Director of consulting firm Primus Partners. One way to do this is to ensure that the benefits of sustainable practices percolate through the value chain. This is what the BRSR Core seeks to address.

BRSR Core consists of a set of key performance indicators (KPIs) under nine ESG attributes, which are further broken down into over 40 sub-indicators that relate to an organisation’s non-financial performance. These nine ESG attributes include greenhouse gas (GHG), water, and energy footprint, embracing circularity, enhancing employee well-being and safety, enabling gender diversity in business, enabling inclusive development, fairness in engaging with customers and suppliers, and openness of business. It also introduces certain new indicators related to inclusive development and

INDIA'S ESG PREPAREDNESS

▶ Only 27 per cent of businesses are well-prepared to meet ESG requirements

▶ Only 15 per cent organisations' suppliers are ready

▶ 80 per cent of organisations report their ESG efforts. The prevalent method used is sustainability reports (81 per cent), followed by ESG reports (50 per cent), and BRSR and integrated reports (44 per cent)

▶ Nearly 75 per cent organisations said they

communicate ESG efforts, with awareness programmes (85 per cent) being the most-used method, followed by annual meetings (76 per cent) and investor decks (50 per cent)

▶ Less than half (49 per cent) are well-aware of ESG reporting mechanisms and regulations in India

▶ 68 per cent of firms have been able to integrate ESG strategies

SOURCE DELOITTE ESG PREPAREDNESS SURVEY REPORT (MAY 2023), BASED ON A SAMPLE OF 150 COMPANIES

BRSR CORE COMPLIANCE TIMELINE

FY	BRSR Reporting	BRSR Core Assurance	Applicability
2023-24	Top 1,000 listed entities	Top 150 listed entities	Mandatory
2024-25	Top 1,000 listed entities	Top 250 listed entities	Mandatory
2025-26	Top 1,000 listed entities	Top 500 listed entities	Mandatory
2026-27	Top 1,000 listed entities	Top 1,000 listed entities	Mandatory

➤ The new framework will be applied to businesses from FY24 in a phased manner ➤ From FY25, the Top 250 companies will have to provide value chain disclosures on a comply or explain basis

SOURCE UPDAPT

openness of business operations and enhances disclosures under existing indicators.

A closer examination of the KPIs reveals that they aim to nudge India Inc. to reduce, improve, and report environmental and social impacts, says Sumit Seth, Partner at Price Waterhouse & Co Chartered Accountants. This, he says, “[Aligns] with our goal of achieving climate-related objectives under India’s Nationally Determined Contributions (NDC)”. It is akin to other environmental and social goals like the UN Sustainable Development Goals and the National Guidelines on Responsible Business Conduct.

THE OPPORTUNITY

A crucial part of the BRSR Core is the requirement that companies provide reasonable assurance on the disclosures they make. Sebi brought this clause in to eliminate greenwashing—the practice of making inaccurate environmental claims about activities that a company undertakes. The regulator requires firms to obtain assurance of such activities from an independent party.

This independent party must have the requisite expertise and, at the same time, not have a conflict of interest. Satish Ramchandani, Co-founder and Chief Business Officer of ESG data analysis provider Updapt, explains, “The assurance provider or any of its associates shall not sell its product or shall not provide non-audit or non-assurance-related services, including consulting services, to the company.”

Sebi seems to be aware that companies may face some hiccups in adapting. So, it has suggested a glide path: The BRSR Core disclosures will start with the Top 150 listed entities by market cap in FY24.

Embedding BRSR Core into companies’ reporting would of-

fer them several compelling short- and long-term benefits. “It would enhance business value by uncovering new opportunities, improving market positioning, providing greater access to capital investment, and reducing risks. It would also foster better corporate citizenship, attract top talent, and drive lasting success,” says an NTPC spokesperson. NTPC is one of the firms that is in the process of providing reasonable assurance on ESG metrics starting from FY24.

Of course, for some firms, these

ability Officer of ITC.

Similarly, with two years of voluntary reporting on BRSR parameters, Dalmia Bharat has developed robust internal infrastructure to align with Core requirements. This experience has significantly eased the implementation process. But Arvind Bodhankar, Executive Director and Chief Risk Officer of Dalmia Bharat Group, says there are still some things that need to be ironed out in the framework.

He says there should be detailed guidelines for each parameter high-



“BRSR Core has come at a time when businesses all over the world are realising the need for strengthening the resilience of their supply chains, particularly in the aftermath of the Covid-19 pandemic”

SAMEER JAIN

MANAGING DIRECTOR, PRIMUS PARTNERS

disclosures are nothing new. For instance, ITC has adopted sustainability standards voluntarily over the past decade and can cope better with the new rules. It has obtained independent third-party assurance for its sustainability reports since it started reporting this in 2004. Its GHG inventory is also verified by a third-party assurance provider, and the company set 100 KPIs in terms of sustainability nearly 20 years ago. This allowed ITC to meet Sebi’s standards seamlessly, says Madhulika Sharma, Chief Sustain-

lighted in the BRSR to standardise its implementation. Since it was launched, no further guidelines have been issued, and the government must take it up on priority.

There are, however, companies that might not find it as easy to adhere to the framework. For instance, L&T, which has a geographical spread across the country and globe, implementing BRSR Core is turning out to be a challenge. “While some companies in sectors like manufacturing and services have a limited number of



“A closer examination of the KPIs in BRSR Core reveals efforts aimed at enabling [India Inc.] to reduce... and report their environmental and social impacts, aligning with our goals to achieve climate-related objectives”

SUMIT SETH

PARTNER, PRICE WATERHOUSE & CO
CHARTERED ACCOUNTANTS

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L&T has more than 700 project sites in India and in regions like the Middle East. Over time, L&T has developed organisational capabilities to enable data collection from sites, consolidation and review at the business level, and then final reporting at the company level.

SIZE MATTERS

L&T’s experience highlights one crucial aspect of the new rules: firms that collaborate with other large ones may find it easier to meet the requirements on reporting on the value chain.

Take the case of chemical company SRF. “We are a B2B company with a majority of our customers being large organisations (many of them listed) or the companies to whom the BRSR or similar norms are applicable under various juris-

dictions; the focus will be on those to enable compliance with the revised norms,” says Rahul Jain, President & CFO of SRF Limited.

However, that may not be the case with firms that work closely with MSMEs (micro, small, and medium enterprises). To meet 75 per cent disclosures of their value chain as part of their annual reporting process, companies need to engage with stakeholders.

“Stakeholder engagement with the partners in the value chain will be critical for the companies to secure the requisite data in a timely manner,” explains Jaya Vaidhyathan, CEO of risk management company BCT Digital. This means they will also have to invest in systems that facilitate accurate data collection, she adds.

One way to manage the value chain puzzle is by working together as a sector so that best practices trickle down the value chain. “This collaborative effort benefits the whole sector and helps in faster implementation of supply chain-related sustainability aspects to achieve sustainable and respon-

sible business practices,” adds Bodhankar of Dalmia Bharat. This is particularly important for industries like cement because plants of different companies are clustered together.

But it’s easier said than done. “Implementation will necessitate investments in skill development, encompassing training and other efforts aimed at streamlining data management systems to ensure the accurate reporting of KPIs. Additionally, dealing with unlisted supplier and value chain partners may entail supplementary investments to establish the requisite data management systems,” says Rama Patel, Director at CRISIL Ratings.

The BRSR Core is a significant step. It is aligned with many internationally accepted frameworks, such as EU Taxonomy (a classification system for activities aligned with a net-zero trajectory), Global Reporting Initiative sustainability standards, Sustainability Accounting Standards Board, etc. In fact, experts believe BRSR Core is more stringent than most international standards. According to Deloitte, the EU will adopt limited assurance on ESG by October 1, 2026, and reasonable assurance by October 1, 2028. On the other hand, in India, BRSR was mandated in FY23, and BRSR Core reasonable assurance is mandated for the Top 150 companies from FY24.

Sebi is mindful of India’s developing country status. So, the BRSR Core follows a “comply or explain” principle, requiring companies to report ESG information as specified or provide a valid reason if they don’t. This gives companies enough time and flexibility to comply.

It is now over to the companies to comply, since ESG plays a pivotal role in promoting their long-term sustainability. **BT**

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