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SECTORAL ANALYSIS OF PRINCIPLE 2 OF BRSR FILINGS

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ABSTRACT

The landscape of global sustainable reporting is experiencing rapid transformation. In light of the increasing challenges related to environmental, social, and governance aspects worldwide, Indian business leaders have acknowledged the significance of aligning their corporate purpose with the broader concerns of key stakeholders, transcending mere wealth creation. This shift is propelled by shifts in consumer behavior, preferences, and the growing demand from investors for stricter regulations regarding nonfinancial disclosures on a global scale. This research investigates the accuracy and comprehensiveness of sustainability reports, as initially recommended, and later mandated by SEBI, submitted by Indian companies in the financial year 2022-23. The analysis encompasses 91 out of the 95 top 100 companies based on market capitalization that filed BRSR reports in XBRL format until September 1, 2023. The companies are categorized into various industry sectors, and their reports are compared and analyzed. The evaluation of BRSR filings focuses on completeness and data under Principle 2: "Businesses should provide goods and services in a manner that is sustainable and safe." Sectors like Auto, Engineering and IT have reported R&D and CAPEX spending which have environmental and social impact in detail. Companies under Auto, Cement, Infrastructure and FMCG sectors have reported high percentages of sustainable sourcing. Most of the companies have processes in place to reclaim products for reusing, recycling and disposing at the end of life The study concludes that there is a need for enhancement in the quality of the filings. While companies have provided detailed responses to qualitative questions, the data is either insufficient or not presented in the correct format when it comes to quantitative queries. This analysis can serve as a valuable reference for both regulators and companies, offering insights to improve regulatory filings for sustainability reports and refine the report structure for more effective and transparent communication with all stakeholders.

Keywords: *Sustainable Reporting, BRSR, Sectoral Analysis, Principle 2.*

Introduction

There is a growing global demand from investors for more rigorous regulations regarding non-financial disclosures. The primary goal of a sustainability report is to enhance transparency about a company's efforts in promoting sustainable practices. These reports serve as a tool for accountability to various stakeholders, including investors, employees, regulatory authorities, suppliers, civil society, and customers. Sustainability reporting involves the disclosure and communication of a company's environmental, social, and governance (ESG) objectives, along with the processes it employs to achieve them.

Internationally, several ESG reporting frameworks, such as the Global Reporting Initiative (GRI)[i], Carbon Disclosure Project (CDP)[ii], Sustainability Accounting Standards Board (SASB)[iii], and the Taskforce on Climate-related Financial Disclosures (TCFD)[iv], have been established. These frameworks require companies to report on their sustainability performance, underlying principles, processes, and key performance indicators. The International Sustainability Standards Board (ISSB) has issued a global baseline for sustainability reporting in 2023 as IFRS S1(General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures)[v].

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In response to the increasing global challenges related to environmental, social, and governance issues, Indian business leaders have acknowledged the importance of aligning their corporate objectives with the broader concerns of their key stakeholders through sustainable reporting. India's regulatory framework for mandatory sustainability reporting began with the Business Responsibility Reporting (BRR) guidelines formulated in 2009 and made mandatory from 2012. This framework evolved further, leading to the implementation of BRSR reporting in 2021, which was mandated for the top 1,000 listed companies starting from the 2022-23 financial year.

This study assesses the accuracy and comprehensiveness of BRSR reports submitted by Indian companies during the 2021-22 and 2022-23 financial years. The evaluation focuses on the completeness and quality of data under *"Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe."* This principle underscores the importance of adopting sustainable and safe production methods. The study also tracks the evolution of reporting over the two years, highlighting the improvements as the sustainability reporting ecosystem matures.

This analysis could be a valuable resource for both regulators and companies, aiding in the enhancement of sustainability report filings' quality and refining report structures for improved and transparent communication with all stakeholders.

Literature Review

Aupperle et al.[vi] (1985) finds that there is an inverse relationship between ethical and economic factors. The firms that are more economically oriented place less emphasis on ethical, legal and discretionary issues.

(Eccles et al., 2014) used a sample of 180 U.S. companies and found that companies with high sustainability outperform similar companies for stock market and accounting performance over the long term, in a significant manner.

(Aggarwal & Singh, 2019) study annual and business responsibility reports of 60 top listed Indian companies in 2019 and find that reporting quality is significantly lower than the quantity. They do not find conclusive relationship between sustainable reporting and profitability.

Abela (2022)[vii] scrutinizes ongoing efforts to mainstream and standardize sustainability reporting, assessing the implications of these changes. The study concludes that for mandatory sustainability reporting to effectively encourage companies to adopt sustainable business models, it must accurately reflect the specific context of each company and provide both transactional and relational information.

Abeysekera (2022)[viii] bases the reporting framework on the United Nations Sustainable Development Goals (UN SDGs) and their associated targets. The study observes that sustainability reporting frameworks increasingly incorporate UN SDGs, yet they tend to emphasize performance for the purpose of facilitating comparisons between firms.

Friske et al. (2023)[ix] investigate the connection between voluntary sustainability reporting and value of the firm. They find that while sustainability reporting may entail initial costs, it ultimately enhances the overall value of the firm. This is due to companies gaining expertise in effectively communicating their initiatives in sustainability to different stakeholders, and also investors developing expertise at evaluating these reports.

Imperiale et al. (2023)[x] delves into the relationship between the quality of sustainability reporting and ESG performance within the utilities sector.

Afolabi et al. (2022)[xi] explore various sustainability reporting frameworks and conclude that there is still a considerable gap in the harmonization of sustainability reporting regulation

(Roszkowska-Menkes et al., 2024) study a sample of 333 negative events derived from MSCI's ESG Controversies database. They find that that 69 % of negative events were reported selectively. They find that there is a higher chance of selective disclosures in human and labor rights, supply chain and community.

Sustainability Reporting in India

Sustainability reporting in India began with the "Voluntary Guidelines on Corporate Social Responsibility"[xii] issued by the Ministry of Corporate Affairs in 2009. These guidelines were succeeded by the "National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business" (NVGs)[xiii] in July 2011. In December 2012, the Securities and Exchange Board of India (SEBI) made it mandatory for the top 100 companies to file the Business Responsibility Report (BRR)[xiv]. This requirement was later extended to the top 500 companies in FY 2015-16 and to the top 1,000 companies

in 2019. In 2019, the National Guidelines on Responsible Business Conduct (NGRBC)[xv] were introduced, serving as a revised version of the NVGs.

To ensure alignment of the BRR with the NGRBC, SEBI released guidelines and a template for Business Responsibility and Sustainability Reporting (BRSR) in May 2021. This reporting framework has become mandatory for the top 1,000 listed companies starting from FY 2022-23. The BRSR framework operates on the "comply or explain" principle and covers various sustainability aspects, including governance, environment, social responsibility, customer relations, and supply chain management. It is designed to align with globally recognized sustainability reporting frameworks like the Global Reporting Initiative (GRI) and the United Nations Global Compact (UNGC). The overarching goal is to enhance the quality of sustainability reporting by listed companies in India, thereby supporting the country's efforts in combating climate change and positioning it as a leader in establishing rigorous regulatory standards and policies for responsible and sustainable business practices.

- **Structure of BRSR Report**

The BRSR report[xvi] consists of three sections

- **General Disclosures**

This section seeks information about the business operations of the company including nature of business, company contact details, information on subsidiaries, company listing information and details related to products and employees.

- **Management & Process Disclosures**

Compliance to NGBRCs along with the policies, procedures and processes are required to be submitted in this section.

- **Principle Wise Performance Disclosure**

The Key Performance Indicators, KPIs, aligned to the nine principles of NGBRC are reported in this part. Each principle is further divided into Essential Indicators and Optional Leadership Indicators which are both quantitative and qualitative in nature. Total of 140 questions are asked in this section and of them 98 are essential Indicators and 42 are leadership indicators.

Methodology

The study examines the BRSR reports of the top 100 companies, by market capitalization, listed on the Bombay Stock Exchange (BSE) as of June 25, 2023. These BRSR reports are sourced from the BSE portal and the respective companies' websites. The analysis covers the financial year 2022-23 (with filings up to September 1, 2023), following the introduction of BRSR reporting in May 2021.

The companies have submitted their reports in both XBRL and PDF formats as required by SEBI. Although both formats are reviewed for this report, preference is given to the XBRL format in cases where data conflicts arise between the two. The XBRL reports are converted to Excel using a tool available through the National Stock Exchange portal for analysis.

The BRSR filings are assessed for data related to "Principle 2: Businesses should provide goods and services in a manner that is sustainable and safe". Principle 2 focusses on using safe and sustainable production methods. Companies report how they minimize the environmental impact of their operations and at the same time ensuring that their products are safe for both consumers and the environment. Key performance indicators include R&D and CAPEX investments in improving environmental and social outcomes, details on reclaiming, reuse, recycling, and disposal practices, as well as information on extended producer responsibility strategies and product life cycle assessments.

The Optional Leadership Indicators have not been taken in the analysis as very few companies have submitted this data.

Following Essential Indicators have been taken for the analysis from BRSR Report Principle 2[xvii].

- "Percentage of R&D and capital expenditure (capex) investments in specific technologies to improve the environmental and social impacts of product and processes"
- "Procedures in place for sustainable sourcing. What percentage of inputs were sourced sustainably?"
- "Processes in place to safely reclaim products for reusing, recycling and disposing at the end of life"
- "Whether Extended Producer Responsibility (EPR) is applicable to the entity's activities"

Out of the total 100 sample companies, 95 companies have filed the BRSR report for the financial year 2022-23 till the study period, September 1, 2023. Out of these 95 companies, 91 have filed the data in the mandatory XBRL format and these 91 companies have been taken up for analysis in this study. A sectoral analysis has been carried out on the BRSR filings after grouping the companies into different industry sectors. The BRSR filings have been analyzed for the completeness, accuracy and consistency of the information required under Principle 2. The data has been analyzed and presented using tables, charts and graphs.

Data Analysis

A total of 95 companies have filed the BRSR report for 2022-23 till September 1, 2023. Although the filings should be in both pdf and XBRL format, some companies have used only one format for reporting. 91 companies have reported using the XBRL format and these have been taken up for analysis in this study.

The details are shown in Figure 1

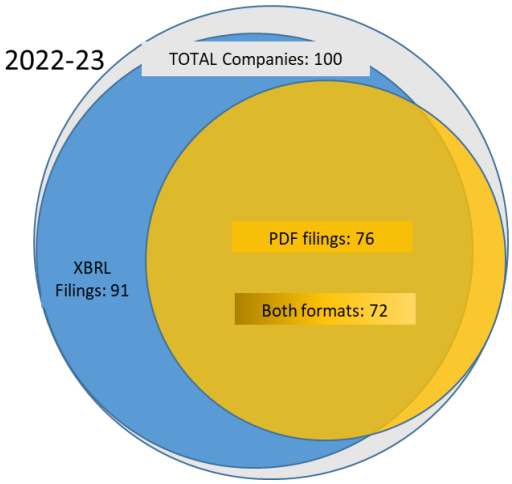

Figure 1: BRSR Filing: Financial Year 2022-23

Analysis of BRSR Reports Filed for FY 2022-23

The BRSR reports filed for FY 2022-23 were analyzed for 91 companies for following parameters which are part of Principle 2 of BRSR. The companies have been grouped into different sectors. The number of companies in each sector is given in figure 2

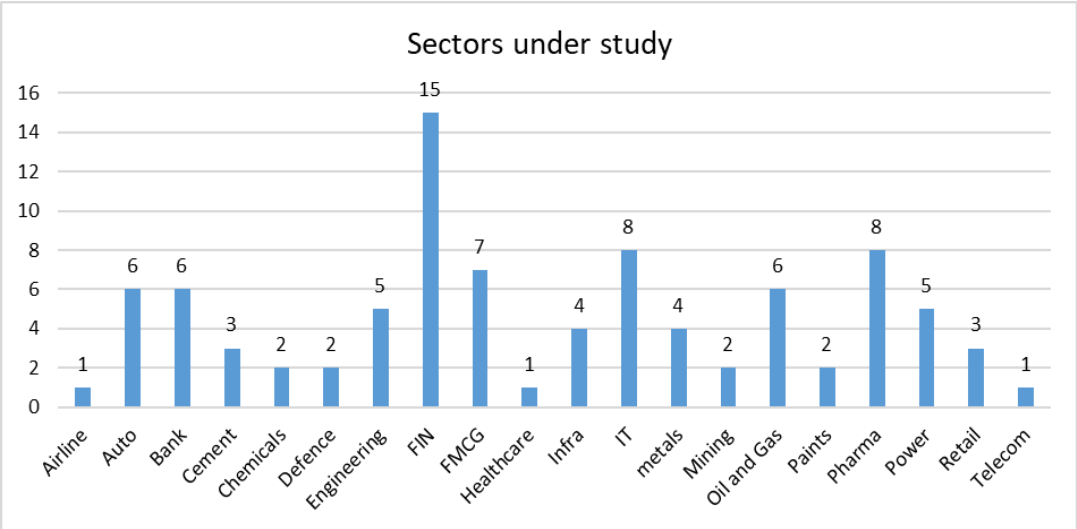

Figure 2: Companies in Different Sectors

"Percentage of R&D and capital expenditure (capex) investments in specific technologies to improve the environmental and social impacts of product and processes"

Submission of data for this question is analyzed for the sample companies. The BRSR report requires submission of data for current and previous financial years.

"Percentage of R&D investments in specific technologies to improve the environmental and social impacts of product and processes" (this FY)

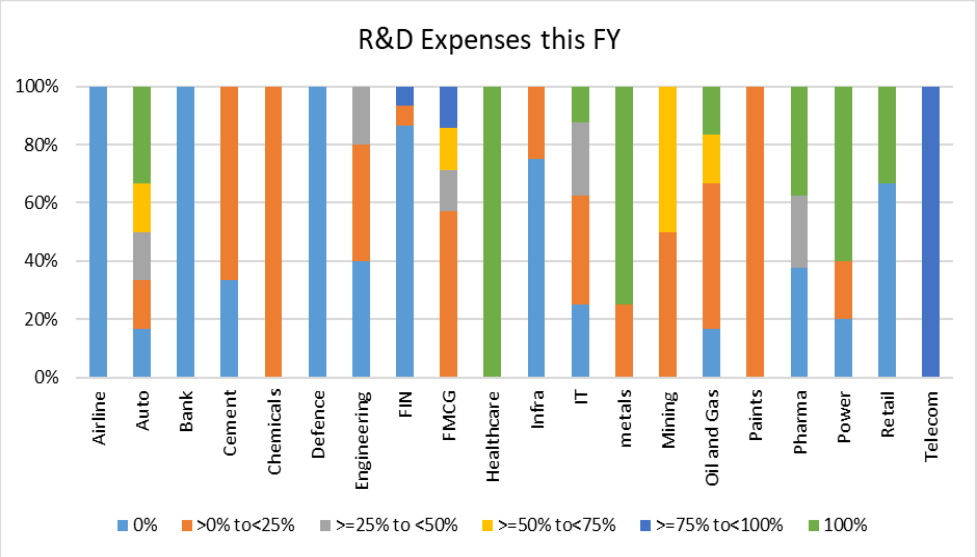

Figure 3: Percentage of R&D Expenses 2022-23

100% of the companies in Healthcare sector and more than 50% of the companies in Metals and Power sector reports show 100% of R&D expenses have an environmental and social impact.

"Percentage of R&D investments in specific technologies to improve the environmental and social impacts of product and processes" (Previous FY)

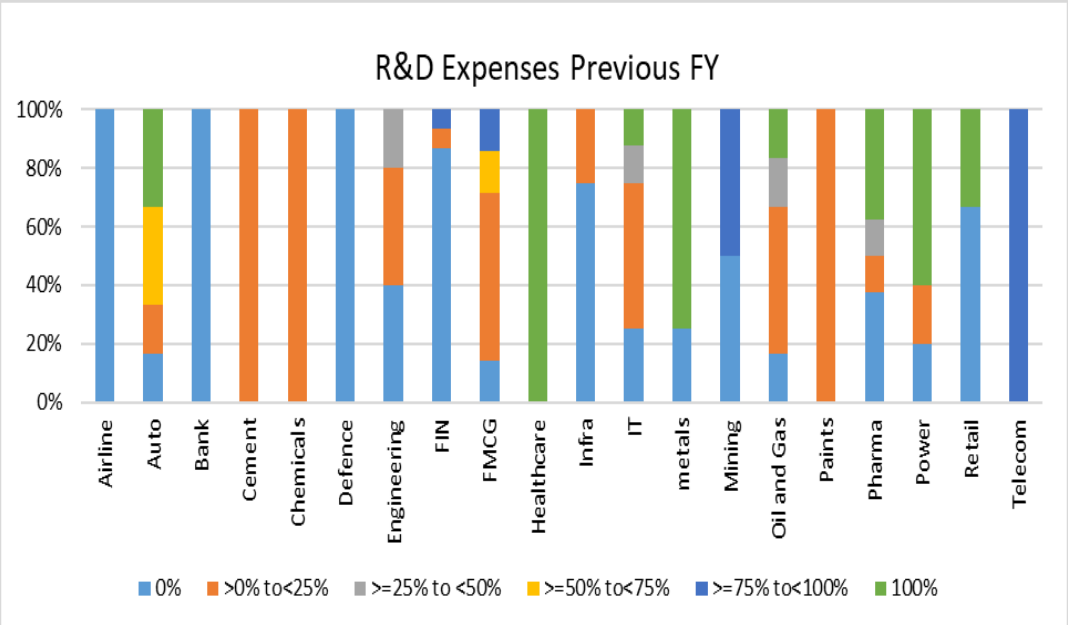

Figure 4: Percentage of R&D Expenses 2021-22

In the previous financial year also, 100% of the companies in Healthcare sector and more than 50% of the companies in Metals and Power sector reports show 100% of R&D expenses have an environmental and social impact.

"Percentage of capital expenditure (capex) investments in specific technologies to improve the environmental and social impacts of product and processes" (this FY)

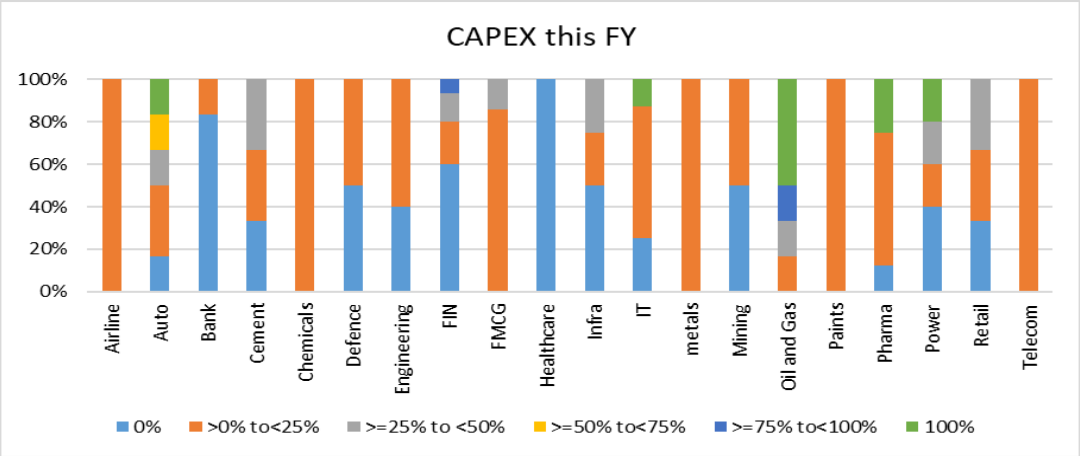

Figure 5: CAPEX -2022-23

Maximum CAPEX creating an environmental and social impact has been made by Oil and Gas sector followed by Pharma, Power and Auto sectors.

"Percentage of capital expenditure (capex) investments in specific technologies to improve the environmental and social impacts of product and processes" (Previous FY)

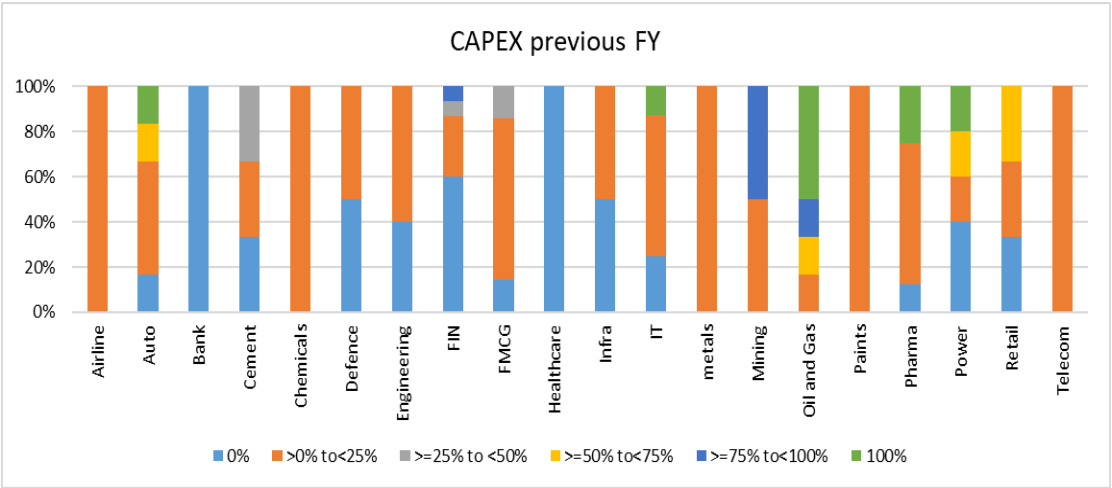

Figure 6: CAPEX -2021-22

Comparing the CAPEX in FY 2022-23 and 2021-22, it is seen that CAPEX expenditure having environment and social impact, has reduced in Oil & Gas, Mining, Retail and Power sectors in 2022-23.

A wide range of R&D and CAPEX percentages have been observed in the submitted data of the sample companies. Many Companies have reported R&D and CAPEX expenditures having environmental impact as 0% or 100% of the total.

Sectors reporting >50% R&D expenses include Healthcare, Telecom, Metals, Power and Mining. Highest amount of CAPEX percentage with ESG impact is from the Oil and Gas sector.

Comparing the submission over two years, the maximum increase in R&D expenses is seen in the Cement Sector. CAPEX has increased maximum in the Metals sector

"Improvements in environmental and social impacts"

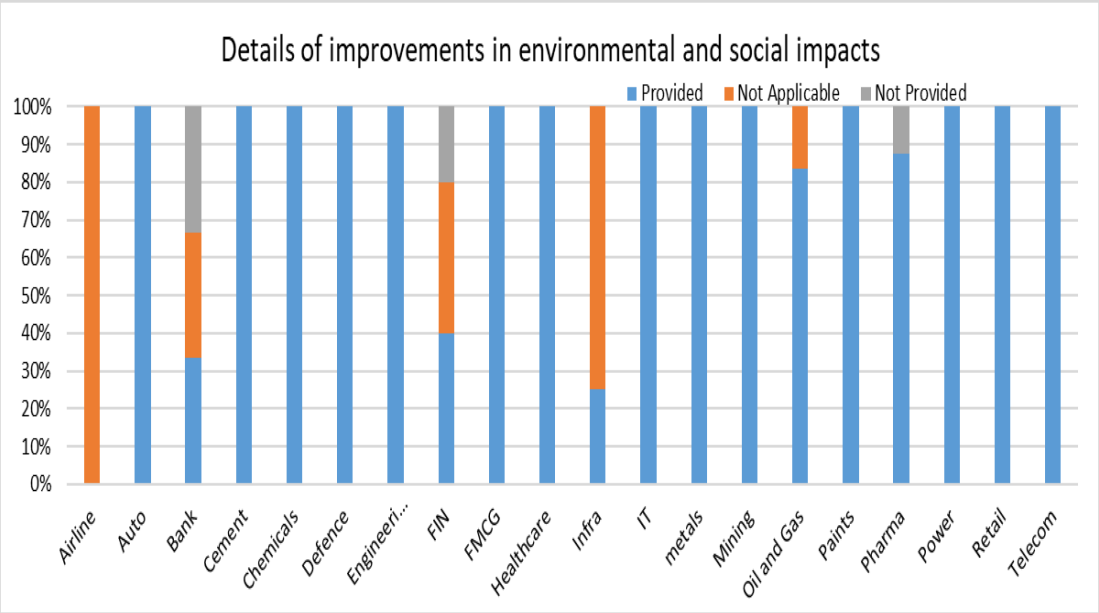

Figure 7: Improvements in Environmental and Social Impacts

Most of the companies have provided information about the social and environmental impacts due to the investments in R&D and CAPEX. Only 6 companies out the sample have not provided this data.

"Procedures in place for sustainable sourcing and percentage of inputs sourced sustainably"

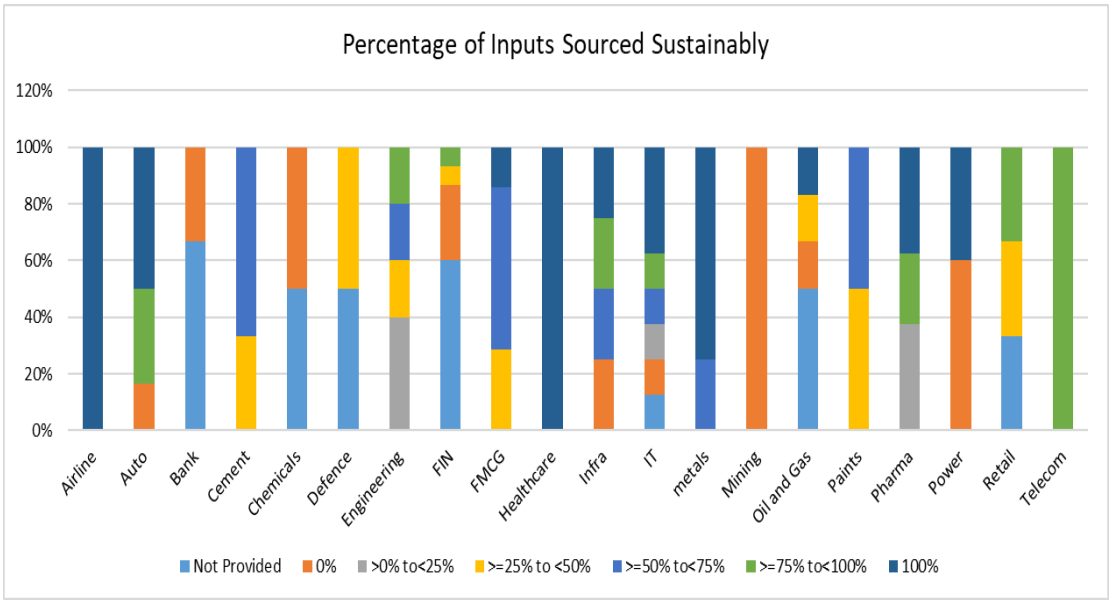

Figure 8: Percentage of Inputs Sourced Sustainably

Most companies have processes in place for sustainable sourcing. Airline and Healthcare sectors report 100% sustainable sourcing. Companies in Auto, Cement, FMCG, IT, Pharma and Infrastructure sectors report maximum percentage of inputs that were sourced in a sustainable manner.

"Processes in place to safely reclaim products for reusing, recycling and disposing at the end of life"

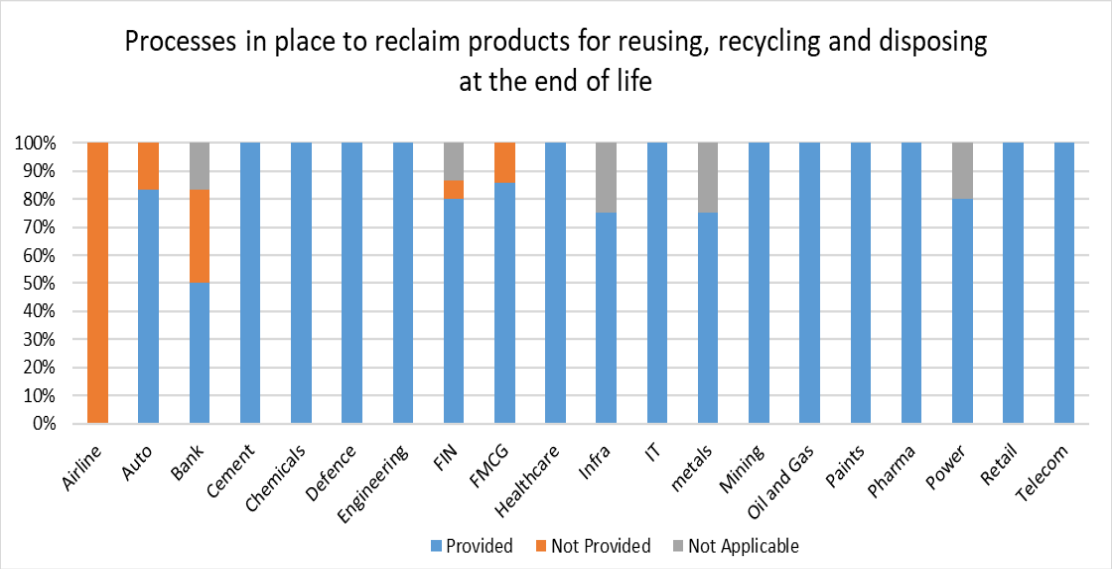

Figure 9: Processes in Place for Safely Reclaiming Products

More than 86% of the companies have processes in place to reclaim products at the end of life. Companies in Airline sector and few in Auto, Bank and FMCG sectors have not provided this information. Surprisingly, 25% of companies in Infrastructure and Metal sectors have reported that this is not applicable for their operations

"Whether Extended Producer Responsibility (EPR) is applicable to the entity's activities"

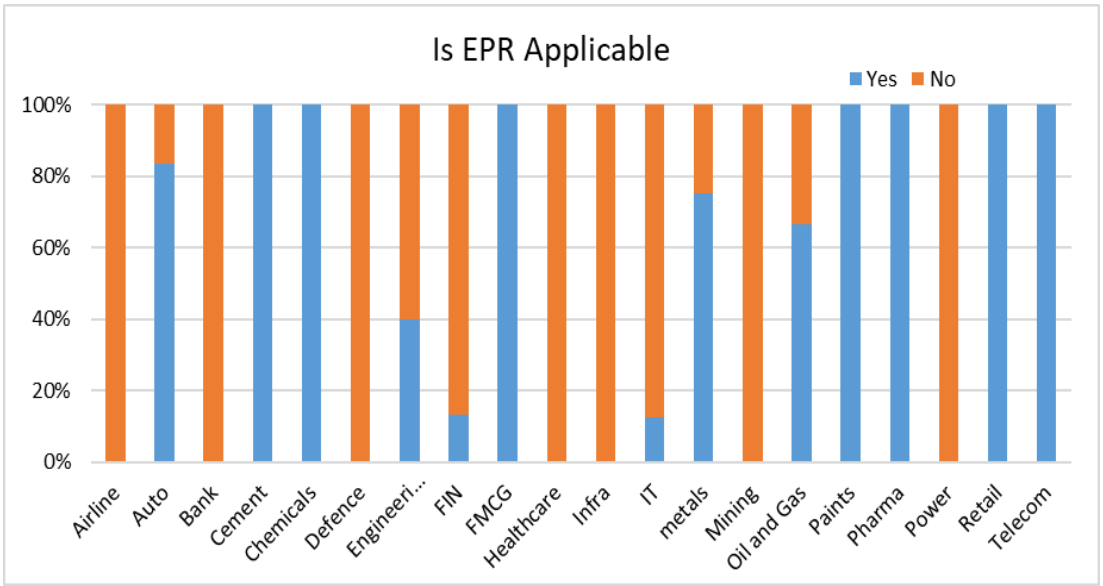

Figure 10: Is Extended Producer Responsibility (EPR) Applicable?

43 companies have responded "YES" to the query. A significant number of companies in Mining, Power, Healthcare and Defence sectors have stated that EPR is not applicable to their operations.

Companies in Banking, IT and Finance sectors have also reported non-applicability of EPR which reflects their non-manufacturing operations.

Findings and Conclusion

The study suggests that further quality enhancement is needed in reporting the sustainability data. Many companies failed to provide the specific percentage of R&D expenditure allocated to improving social and environmental impacts, offering only total R&D expenses instead. Additionally, most companies in this study did not submit the optional leadership indicators. While companies provided detailed answers to qualitative questions, quantitative data was often insufficient or incorrectly formatted. This points to a challenge in aligning internal reporting structures to distinguish between environmentally beneficial expenses and those that are not.

A wide range of R&D and CAPEX percentages have been observed in the submitted data of the sample companies. Some companies have reported 0% or 100% of R&D expenditure is impacting the environment, suggesting the need for improvement in accurate tracking and reporting of such expenditures.

Most companies report 100% sustainable sourcing indicating that not only the Top 100 companies, but the entire supply chain is conforming to the sustainable practices. Similarly, most (86%) companies have processes in place to recycle or reclaim the products at the end of life.

Implementing BRSR filings mechanism can be complex and demanding, with numerous requirements that may make it difficult for companies to identify the most relevant ones. The lack of clarity in reporting criteria has led to inconsistencies, likely because the framework is still relatively new and lacks comprehensive implementation guidelines. Simplifying the process by reducing the number of requirements, offering clearer instructions, and providing robust implementation support, including examples of sustainability reporting, could help companies achieve greater clarity.

To improve reporting quality and avoid errors, it would be helpful to have a standardized utility with a sanity check for data submissions. Enhancing the XBRL utility to check if all queries have been answered and if the data matches previous filings where applicable could also improve accuracy. Appropriate training for professionals involved in BRSR reporting would ensure high-quality reports. Additionally, establishing a mechanism for continuous feedback from those filing the reports and tracking the actions taken in response would be beneficial.

There is also a need for sector-specific report designs. For instance, IT, finance, and banking sectors, which are not involved in manufacturing, may have little to report regarding pollution control methods or product reclamation at the end of life.

Some of these concerns are addressed by SEBI by introducing the BRSR Core reporting on March 29, 2023. The BRSR Core report will feature 49 quantifiable Key Performance Indicators (KPIs) for easier comparison. Initially, it will apply to the top 150 listed companies in FY 2023-24, gradually extending to the top 1,000 listed companies by FY 2026-27. This phased approach gives companies time to align their internal processes. Additionally, the BRSR Core report will be used for standardized ESG ratings by ESG rating providers. The effectiveness of the BRSR Core report shall be observed and analyzed in future as company filings use this format.

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