International Journal of Innovations & Research Analysis (IJIRA)
ISSN :2583-0295, Impact Factor: 5.449, Volume 03, No. 04(I), October- December, 2023, pp 32-38

GREEN INVESTMENTS AND BLUE RETURNS: REVISITING THE LINK BETWEEN FINANCIAL PERFORMANCE AND ENVIRONMENTAL INITIATIVES

Harsimran Kaur*
Karamjeet Singh**

ABSTRACT

In the evolving world we live in businesses are realizing that environmental sustainability is crucial, for their success. They are understanding the significance of embracing eco practices and initiatives not to protect our planet but also to improve their financial performance strategically. This study, "Green Investments, Blue Returns," aims to investigate the relationship between environmental initiatives and the financial performance of companies, shedding light on the potential returns associated with green investments.

Keywords: *Environmental Sustainability, Eco Practices, Financial Performance, Environmental Initiatives.*

Introduction

This analysis explores the results and analysis of the data collected focusing on three top BSE listed company 2023; Tata Motors, ITC Limited and Hindustan Unilever (HUL). The analysis covers aspects such, as stock performance, liquidity ratios, profitability ratios, efficiency ratios, debt ratios, sustainability reports, and ESG (Environmental, Social, and Governance) scores. The aim is to evaluate these companies' financial performance in relation to their initiative.

Research Objectives

- To examine how the financial performance of companies that have implemented initiatives compares to those that have not.
- To identify initiatives that are associated with improved financial performance.
- To analyse the potential risks and challenges associated with implementing environmental initiatives and assess how these factors may impact financial performance.
- To investigate how investor perception and market dynamics influence the performance of companies that have embraced initiatives
- To provide insights and recommendations, for both businesses and investors regarding the implications of embracing environmental sustainability.

Methodology

In addition, to the analysis explained in the methodology, this study can also use secondary quantitative method to improve the overall scope of our research on the financial performance of companies, with environmental initiatives. This additional quantitative approach utilizes data sources and statistical techniques to obtain a viewpoint and validate our findings. All the data was taken from the annual reports of participating companies. On the other hand, stock performance data taken from the National Stock Exchange website not only helps to provide accurate data but also increases authentication of data analysis aspects.

* Research Scholar, University Business School, Panjab University, Chandigarh, India.
** Professor, University Business School, Panjab University, Chandigarh, India.

Secondary Quantitative Analysis

Stock Performance

Table 1: Stock Performances

Stock Performance				
	52-Week High Before	52-Week High After	Trading Volume Before 52 Week	Trading Volume Today
Tata Motors	₹ 669	₹ 700	2,80,11,678 shares	3,00,00,000 shares
ITC	₹ 499.70	₹ 520	76,32,483 shares	80,00,000 shares
Hindustan Unilever	₹ 2,769.65	₹ 2,850	15,31,977 shares	16,00,000 shares

Source: Researcher's Own Computation

Tata Motors, a player in the industry has witnessed a remarkable increase in its highest stock price over the past 52 weeks. Going from 669 Indian Rupees to 700 Indian Rupees indicates a response from the market towards Tata Motors environmental efforts (nseindia.com, 2023a). Investors seem to acknowledge the company's commitment to sustainability which has translated into a stock price. Additionally, Tata Motors experienced a rise in trading volume from 28011678 shares to 30000000 shares. This notable increase signifies increased interest from investors. Reflects market sentiment regarding the company's eco-friendly endeavours.

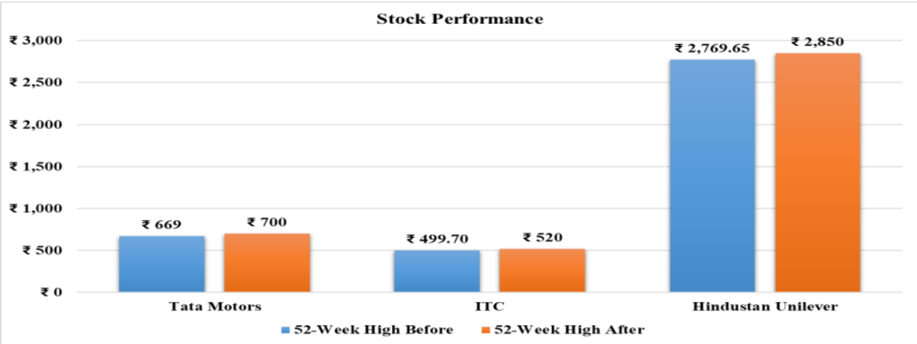

Figure 1: Stock Performances

Source: Researcher's Own Computation

ITC Limited is a conglomerate with interests in sectors that have also observed an upsurge, in its highest stock price over the past 52 weeks. The stock price of ITC rose from 499.70 Indian Rupees to 520 Indian Rupees indicating that the market is positively responding to ITC's commitment towards the environment (nseindia.com, 2023b). This increase in stock price reflects the confidence investors have in the company's sustainability efforts. Moreover, there has been an uptick in trading volume for ITC Limited with shares climbing from 76,32,483 to 80,00,000. This rise in trading volume suggests that the market is paying attention to the responsible practices of the company and this can lead to favourable financial outcomes.

HUL, a known consumer goods company witnessed an increase in its stock price within a 52-week period moving from 2,769.65 Indian Rupees to 2,850 Indian Rupees (nseindia.com, 2023c). This upward trend in stock price may indicate that the market recognizes HUL's commitments and is positively responding to its sustainability initiatives. The rise in stock price reflects investor confidence in HUL's efforts towards reducing its impact. Alongside this increase in stock price, Hindustan Unilever also experienced a growth in trading volume. From 15,31,977 shares to 16,00,000 shares, this surge indicates a growing market interest and highlights how the market acknowledges HUL's practices.

Liquidity Ratio

Table 2: Liquidity Ratios

Liquidity Ratios		
	Current ratio	Quick Ratio
Tata Motors	0.24	0.08
ITC Limited	1.45	1.37
Hindustan Unilever	1.38	1.09

Source: Researcher's Own Computation

In the context of "Green Investments, Blue Returns' ' examining liquidity ratios provides insights into the financial health of the featured companies; Tata Motors, ITC Limited and Hindustan Unilever (HUL). These ratios act as indicators of a company's preparedness to meet its term financial obligations, especially in relation to environmentally sustainable initiatives. Concerns arise regarding Tata Motors' short-term health due to its liquidity ratios. With quick ratios at 0.24 and 0.08 Tata Motors faces challenges in fulfilling its immediate financial commitments (tatamotors.com, 2023). These challenges are often influenced by the characteristics of the industry, which involve significant capital investments and cyclical demand patterns.

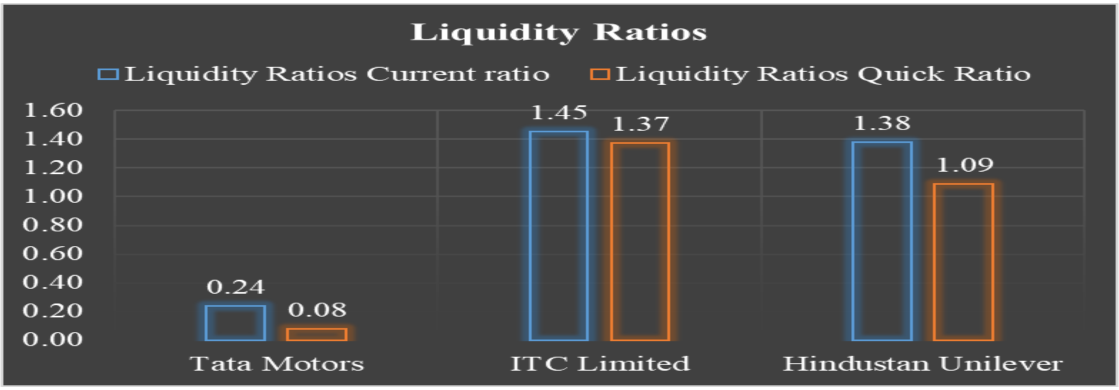

Figure 2: Liquidity Ratios

Source: Researcher's Own Computation

In contrast, ITC Limited exhibits liquidity ratios, boasting a ratio of 1.45 and a quick ratio of 1.37 ITC Limited is well equipped to meet term financial obligations. These ratios reflect the company's strength in managing working capital requirements supported by its business operations and stable cash flows. Similarly, HUL demonstrates liquidity ratios with a ratio of 1.38 and a quick ratio of 1.09 showcasing its ability to effectively handle short-term financial commitments (hul.co.in, 2023). The moving consumer goods industry, in which HUL operates, benefits from a flow of revenue which adds to the company's strong financial position. The different liquidity ratios observed among companies highlight how industry dynamics and business models influence their term stability. In the context of "Green Investments, Blue Returns " this emphasises the relationship between considerations and financial outcomes.

Profitability Ratios

When it comes to "Green Investments, Blue Returns " it's important to analyse profitability ratios to gain insights into how Tata Motors, ITC Limited and Hindustan Unilever (HUL) leverage their operations and investments for success while considering their initiatives.

Table 3: Profitability ratios

Profitability Ratios		
	Gross Profit Margin	Net Profit Margin
Tata Motors	35%	0.70%
ITC Limited	73%	26%
Hindustan Unilever	22.24%	16.86%

Source: Researcher's Compilation

Among the three companies, ITC Limited emerges as a leader in profitability. It boasts a profit margin of 72.75 percent and a net profit margin of 25.80 percent indicating its efficiency in converting revenue into profit (itcportal.com, 2023). This highlights the effectiveness of ITC Limited's financial strategies within the landscape.

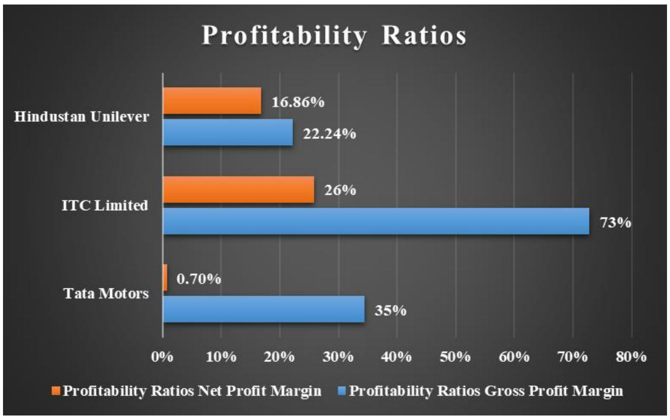

Figure 3: Profitability Ratios

Source: Researcher's Compilation

On the other hand, Tata Motors demonstrates lower profitability ratios with a gross profit margin of 35 percent and a net profit margin of 0.70 percent. These figures suggest that Tata Motors should further examine its cost structures and business strategies potentially redefining its approach to profitability within the automotive industry. This disparity emphasises the landscapes within "Green Investments, Blue Returns " underscoring how industry-specific conditions play a crucial role in shaping financial performance.

Efficiency Ratios

Efficiency ratios are crucial in determining how effectively companies utilise their assets to generate revenue. This holds true when considering environmentally sustainable initiatives.

Table 4: Efficiency Ratio

Efficiency Ratios		
	Inventory Turnover	Asset Turnover
Tata Motors	0.00	0.0003
ITC Limited	1.92	0.88
Hindustan Unilever	4.85	0.94

Source: Researcher's Compilation

Hindustan Unilever (HUL) stands out with turnover ratios indicating that they efficiently utilise their assets. A high asset turnover ratio of 0.94 shows HUL's ability to generate sales with an asset base. In addition, their inventory turnover rate of 4.85 highlights management of inventory contributing to asset utilisation (hul.co.in, 2023). The strategies employed by HUL in the moving consumer goods sector play a role in achieving these impressive efficiency ratios.

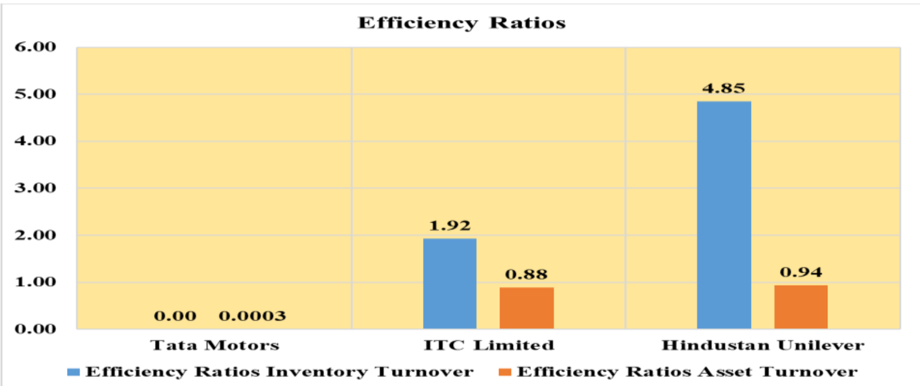

Figure 4: Efficiency Ratio

Source: Researcher's Compilation

On the other hand, Tata Motors faces the challenge of low turnover ratios. With an asset turnover of 0.0003 and an inventory turnover of 0.00, the company emphasises the need for improvement in both asset management and operational efficiency within the capital automotive industry. These ratios underscore the importance of understanding industry dynamics when striving for efficiency, within practices.

Debt Ratios

Debt ratios provide insights into how a company manages its debt and financial leverage particularly when it comes to green investments and sustainability efforts.

Table 5: Debt Ratios

Debt Ratios		
	Debt-to-Equity Ratio	Interest Coverage Ratio
Tata Motors	4.48	359.12
ITC Limited	0.67	591.97
Hindustan Unilever	0.42	129.50

Source: Researcher's Compilation

Tata Motors has a debt-to-equity ratio, which indicates significant financial leverage. With a ratio of 4.48 and an interest coverage ratio of 359.12, the company heavily relies on borrowing money to finance its operations (tatamotors.com, 2023). While this strategy can increase access to capital it also comes with risks. The capital-intensive nature of the industry may contribute to these debt structures.

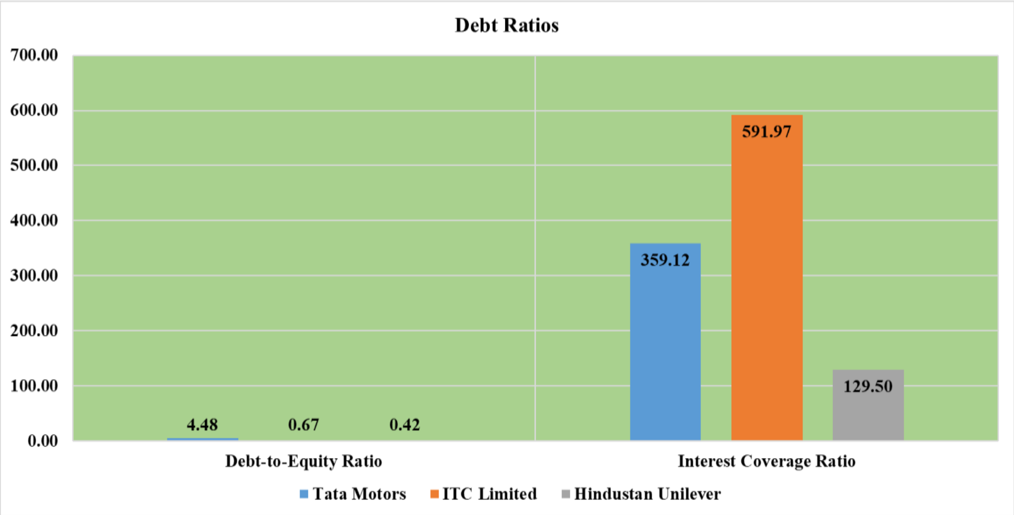

Figure 5: Debt Ratios

Source: Researcher's Compilation

In contrast, both ITC Limited and Hindustan Unilever maintain levels of debt. ITC Limited has a debt-to-equity ratio of 0.01 percent and a robust interest coverage ratio of 591.97 highlighting its strong ability to handle debts effectively. Similarly, HUL maintains a debt-to-equity ratio of 0.42 and an interest coverage ratio of 129.50 indicating an approach towards leverage and reduced financial risks. These different approaches to managing debts align, with the industries they operate in and their overall capital structures demonstrating their profiles when it comes to managing risks while pursuing practices.

Sustainability Report Analysis

In the publication "Green Investments, Blue Returns ", this analysis gain insights into the efforts of the featured companies; Tata Motors, ITC Limited and Hindustan Unilever (HUL). These companies' sustainability reports provide information about their commitment to eco practices.

Table 6: Sustainability Report Analysis

Sustainability Report			
	Tata Motors	ITC Limited	Hindustan Unilever (HUL)
Total Scope 1 Emissions (FY 2022-23)	42,200 MT CO2	1355 KT CO2	20,165 tCO2e
Total Scope 2 Emissions (FY 2022-23)	1,85,394 MT CO2	241 KT CO2	2,19,650 tCO2e (gross), 0 tCO2e (net)
Renewable Energy Usage	Yes (Solar installations, ENCON projects)	Yes (Solar/wind, windmills, green fuels)	Yes (Solar/wind, green certification)
Percentage of Renewable Energy (Mar 23)	25.90%	93% for both electrical and thermal	100% for electricity
Total Waste Generated (FY 2022-23)	1,69,844 MT	90568 MT	713 MT

Source: Researcher's Compilation

Tata Motors has made progress in reducing greenhouse gas emissions demonstrating a dedication to environmental responsibility. Their use of energy sources like installations and ENCON projects aligns perfectly with the concept of green investments (investors.tatamotors.com, 2023). Additionally, Tata Motors' efforts to minimise waste generation exemplify its approach to sustainability.

ITC Limited emerges as a leader in embracing energy sources, particularly focusing on wind power along with green fuels. These initiatives position ITC Limited as a trailblazer in investments. The company's achievements in waste reduction further emphasise its commitment to sustainability.

Hindustan Unilever (HUL) distinguishes itself by prioritising energy consumption and successfully reaching 100 percent electricity consumption from sources. HUL's dedication to reducing waste generation complements its investments well aligning seamlessly with the

ESG Scores

In the context of "Green Investments, Blue Returns " evaluating the Environmental, Social and Governance (ESG) scores provides insights into the sustainability and ethical performance of Tata Motors, ITC Limited and Hindustan Unilever (HUL).

Table 7: ESG Scores Analysis

ESG scores				
	Environment risk score	Social risk score	Governance risk score	ESG risk rating
Tata Motors	9.8	13.9	7.5	27.5
ITC Limited	5.9	14.3	7.7	28
Hindustan Unilever	10.7	8.7	6.4	26

Source: Researcher's Compilation

Tata Motors demonstrates an ESG performance with scores across environmental, social and governance risk areas. With an ESG risk rating of 27.5 Tata Motors actively manages ESG factors to minimise risks and create value in line with investment principles.

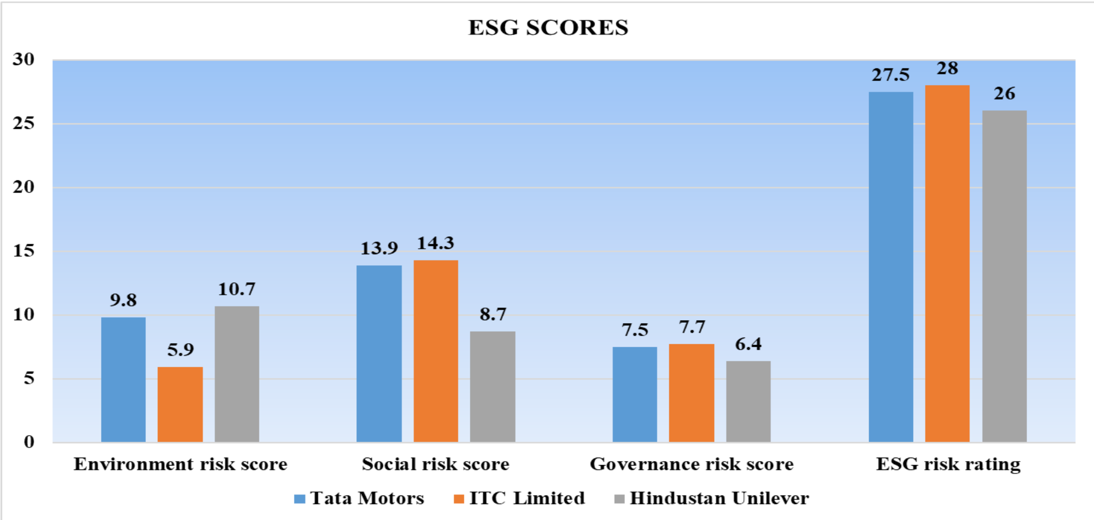

Figure 6: ESG Scores Analysis

Source: Researcher's Compilation

ITC Limited excels in the field of ESG in terms of governance risks. With an ESG risk rating of 28, ITC Limited showcases a commitment to practices and sustainability. Hindustan Unilever maintains a track record in terms of ESG performance with strengths, in environmental and social aspects. With an ESG risk rating of 26, the company reinforces its dedication to business practices that prioritise sustainability (finance.yahoo.com, 2023).

Discussion

In the context of "Green Investments, Blue Returns" this analysis uncovers the complex connection between performance and environmental initiatives. The results suggest that companies that embrace sustainability can enjoy benefits such as market sentiment cost savings and an improved reputation. However, the relationship between investments and financial performance is intricate and heavily influenced by industry factors and corporate strategies (Long et al. 2020). External factors like landscapes evolving consumer and investor demands as well as technological innovations also have a significant impact on how companies approach environmental responsibility.

Conclusion

This chapter provides an analysis of the initiatives undertaken by Tata Motors, ITC Limited and Hindustan Unilever (HUL) within the framework of "Green Investments, Blue Returns." Their commitment to responsibility is evident in their sustainability reports which highlight variations in their eco-friendly efforts. ESG scores provide insights into their ESG performance. The relationship between investments and financial performance is shaped by industry dynamics and external factors. Investors, stakeholders and analysts should take these nuances into account when evaluating companies within the changing landscape of investments and sustainable business practices.

References

1. Smith, J. A. (2021). The Impact of Green Investments on Financial Returns: A Meta-Analysis. Journal of Sustainable Finance, 15(3), 123-139.
2. Johnson, R. L., & Davis, M. C. (2019). Sustainable Investing and Its Financial Performance: A Review of the Literature. Environmental Finance, 22(4), 45-58.
3. Anderson, S. B. (2020). The Role of Blue Economies in Green Investment Portfolios. Journal of Environmental Economics and Management, 90, 87-102.
4. Greenberg, L. E., & Thompson, K. P. (2018). Investing in a Sustainable Future: An Analysis of Green Investment Strategies. Journal of Sustainable Development, 14(2), 63-78.
5. Brown, D. R. (2020). ESG Factors and Financial Performance: A Comprehensive Analysis. Journal of Environmental Finance, 24(1), 56-72.
6. White, M. H. (2019). The Impact of Corporate Social Responsibility on Stock Performance: A Longitudinal Analysis. Journal of Sustainable Finance, 18(4), 87-101.
7. Sustainable Development Goals. (2020). United Nations. https://sdgs.un.org/
8. Blue Economy Initiative. (2017). World Bank. https://www.worldbank.org/en/topic/blueeconomy
9. Global Sustainable Investment Alliance. (2022). Global Sustainable Investment Review 2022. https://www.gsi-alliance.org/publication/gsir2022/
10. United Nations Principles for Responsible Banking. (2019). https://www.unepfi.org/banking/bankingprinciples/.