

# ESG EVALUATION MODEL



JUNE 2024



SES licenses and uses the SASB  
Materiality Map® Disclosure  
Topics and SICS in ESG work.



COMMUNITY MEMBER



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### ABOUT SES ESG

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SES ESG Research Private Limited (SES ESG), is a wholly owned subsidiary of Stakeholders Empowerment Services (SES)<sup>[1]</sup>. It was incorporated to comply with requirement of SEBI Regulations for registration as an ERP.

SES ESG has received the 'Certificate of Registration as a Category 2 ESG Rating Provider' (ERP) w.e.f. 25<sup>th</sup> April, 2024 (Registration Number: IN/ERP/Category-II/0002) from Securities and Exchange Board of India (SEBI) to commence the business of ERP.

Prior to SES ESG commencing of ERP business, SES ESG business was carried on in the holding Company viz. SES.

- ❖ SES is pioneer in India to have started ESG Rating way back in 2018-19
- ❖ First ESG Ratings / ESG Report was published in 2019 based on data for FY 2018.
- ❖ The Coverage has now increased to more than 550 companies which will gradually increase, mainly based on client requirements.
- ❖ SES has partnered with NSE and supplying ESG ratings data to NSE for their indices.
- ❖ SES has done extensive ESG related research for NSE and various other domestic and FII clients since 2019.
- ❖ SES - Holding Company is a not for profit, absolutely independent conflict free entity, very different from any other vendors as far as structure goes.

#### <sup>[1]</sup>About SES:

Stakeholders Empowerment Services, a not for profit company was founded in 2012 with a mission to positively impact governance landscape of Indian listed companies. SES is one of the largest Proxy advisory company in India serving clients such as Mutual Funds, Insurance Providers, Foreign Investors including the largest asset manager in the world apart from leading banks, accounting and legal firms.

SES serves its clients through its Proxy Reports, Corporate Governance Reports, topical research report, voting portal and other software-based solutions. SES is fiercely independent and conflict free and has not taken any investment from any entity and earns through subscription income alone.



# ESG EVALUATION MODEL

## ABOUT ESG MODEL

### EVALUATION FRAMEWORK

SES ESG (from hereinafter at places also referred to as SES) evaluates an entity based on its proprietary evaluation framework (referred to as “ESG Model”) and provides an ESG Score / Ratings (*Note: The terms ‘Scores’ & ‘Ratings’ shall have same meaning i.e. ESG Score or ESG Rating of an entity*).

SEBI in CRA Regulations for ERP - 28B(1)(b) defines ESG Ratings as;

*“environmental, social, and governance ratings”, or “ESG ratings” means the rating products that are marketed as opinions about an issuer or a security, regarding its ESG profile or characteristics or exposure to ESG risk, governance risk, social risk, climatic or environmental risks, or impact on society, climate and the environment, that are issued using a defined ranking system of rating categories, whether or not these are explicitly labelled as “ESG ratings”*

SES ESG Model has been designed to evaluate objectively Company’s disclosure and performance on ESG front. Any evaluation which aims to bring differentiation and separate aspiration to do better from run of the mill compliances alone, must necessarily have benchmarks beyond legal compliance parameters. As a result, evaluation parameters in SES Model under three main pillars viz. Environment, Social and Governance are not only based on mandatory legal requirements to be followed by listed Indian Companies, but also incorporate best practices followed around the World and few SES created benchmarks.

For example, disclosures under Environment & Social parameters are evaluated not only based on Business Responsibility & Sustainability Reports, but also on key disclosure requirement of Sustainability Reports and/or Integrated Reports (GRI/ IIRC), ISSB / TCFD / SASB etc. Similarly, for Governance factor, parameters are set as required under the Companies Act, 2013, SEBI (LODR) Regulations, 2015 and other applicable laws as well as the best practices followed around the World (such as ICGN governance principles) along with SES’ own Benchmarks.

Further, SES ESG has also adopted the requirements of SEBI Regulations / Circulars for;

- BRSR Core framework / Ratings [[Circular for BRSR](#) – July 12, 2023 & [Circular for ERP](#) – 16<sup>th</sup> May, 2024)
- ESG parameters relevant to Indian Context (*Read for details at [Annexure III](#)*)
- Parivartan / Transition Score (*Read for details at [Annexure IV](#)*)

### ESG MODEL- SCORING & EVALUATION CRITERIA



The ESG Model is designed based on the framework of the **United Nations Principles for Responsible Investing (“PRI”)**. PRI has laid down steps to embed responsible investment into organisational structure and processes.

POLICY	TARGETS	TRAINING	ESG TEAMS AND COMMITTEES	INVESTMENT CONSULTANTS	MONITORING AND REPORTING	REVIEW
The purpose of a policy and its key components	Turning policy commitments into concrete goals	Identifying skills gap and staying abreast of latest developments	Standalone ESG and investment teams versus integrated teams	How to align external help with policy	Monitoring progress towards targets and reporting that information to stakeholders	Evaluating successes and failures

The ESG Model developed by SES ESG has taken into account process outlined by UN PRI.

## ESG EVALUATION MODEL

The model evaluates whether the Company has formulated a policy if yes, whether it has established targets, provided disclosure on steps and initiatives taken to meet the targets, are the initiatives restricted to the Company or includes in the scope Company's subsidiaries, suppliers' associates. Further, the model also objectively evaluates the performance of the Company across the initiatives taken and if Company has succeeded in the initiatives to meet the targets as also measures.

The model has also considered many other voluntary disclosure frameworks, guidelines such as Global Reporting Initiative ("GRI"), International Accounting Standards Board ("IASB") – ISSB Standards including Sustainability Accounting Standards Board ("SASB")<sup>1</sup>, UN Global Compact etc.

## REPORTING FRAMEWORKS

ESG factors having become key areas of interest for investors, framework and guidelines for disclosure and assessment of key ESG factors have assumed critical importance. Investors are incorporating ESG parameters for evaluating their portfolios, look for metrics to assess ESG performance of their investee companies and all potential investee companies. A standardised set of guidelines which could help corporations in their assessment of ESG is a perfect answer to understand disclosure and performance of companies on most ESG parameters, most of which are directly non-financial in nature. (Read More at [Annexure V](#))

## ESG SCORING

ESG Model is broadly divided into three pillars viz. Environment, Social & Governance.



### ENVIRONMENT

- ❖ General Disclosures
- ❖ Product / Services disclosures
- ❖ Energy Consumption
- ❖ Renewable Energy
- ❖ Air Emissions
- ❖ Water Consumption
- ❖ Effluents Management
- ❖ Waste Management
- ❖ Environmental Incidents



### SOCIAL

- ❖ Workforce Diversity & Management
- ❖ Health & Safety
- ❖ CSR
- ❖ Community Engagement
- ❖ Product / Service Quality
- ❖ Customer Orientation
- ❖ Cyber Security
- ❖ Customer Privacy



### GOVERNANCE

- ❖ Board Composition
- ❖ Board Committees
- ❖ Director's Remuneration
- ❖ Statutory Auditors
- ❖ Audit & Financial Reporting
- ❖ Stakeholders Engagement, Ownership & Control
- ❖ Ethics, Bribery & Other Governance Factors

Further details at [Annexure I](#)

#### EVALUATION FRAMEWORKS:

- *National Voluntary Guidelines, Business Responsibility & Sustainability Reports, Legal requirements relating to Environment & Social, Companies Act, 2013, various Regulations / legal requirements of SEBI and relevant other applicable legal requirements or voluntary frameworks.*
- *United Nations Principles for Responsible Investing; Global Reporting Initiative – GRI Standards; IFRS / ISSB [ISSB / SASB Standards]; Sustainable Development Goals; Task Force on Climate-Related Financial Disclosures; UNGC Principles, and relevant frameworks.*

#### CHANGES IN 2024 MODEL:

Prior to FY 2024, SES evaluated a separate pillar for **Policy Disclosures beyond E /S/G parameters**, a question was asked quite often to SES, why Policy Disclosures is a separate parameter for evaluation? Policy was included as separate section

<sup>1</sup> **SASB:** The ISSB has committed to building on the industry-based SASB Standards and embedding SASB's industry-based approach to standards development.



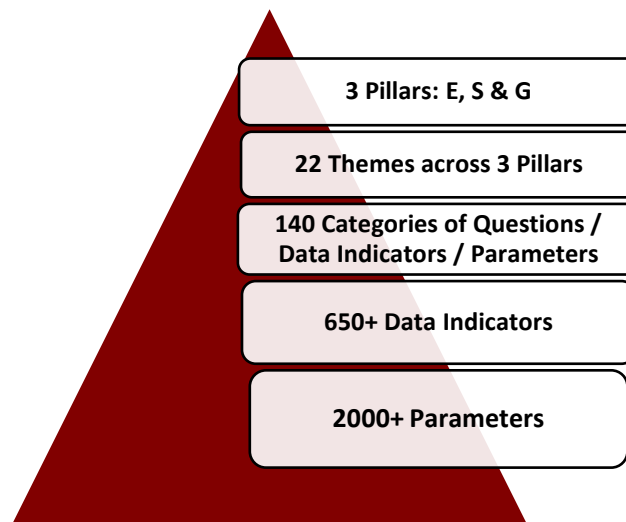
## ESG EVALUATION MODEL

as policy is the seed which eventually results into full-fledged fruit bearing tree and acts as catalyst. Policy is a first step towards achieving desired level of ESG foot print. It also exposed that everyone was quick to score on policy as it was low hanging fruit. SES evaluation of Policy separately exposed that policy to performance was a different road not much travelled. However, transition from BRR to mandatory BRSR disclosures has made entities to travel performance path in addition to policy making and increased awareness on ESG. Thus, specific focus is now required on performance of E, S & G pillar.

Accordingly, separate pillar of Policy Disclosures has been removed from evaluation, and all the weights of Policy Pillar (5%) is redistributed proportionately to Environmental & Social Pillar (based on industry specific weights)

## EVALUATION PARAMETERS

SES analyses an entity's analysis on three main pillars viz. Environment, Social & Governance (ESG). The following is the highlight about depth of SES ESG Model:



## ESG - WHAT IS BEING SCORED?

ESG Model scores policy disclosures, targets set, adequacy of disclosure, initiatives taken and performance for three pillars viz. E S & G, through 650+ well researched indicators, these indicators are aimed to get binary answers for qualitative indicators and numeric scores of quantitative data based on disclosures made by a company. These answers both qualitative and quantitative are used to give section wise numerical score and then finally giving the company an ESG Score / Rating. In order for model to work and reflect true picture, absolute precondition is that the relevant **information or data** on key ESG factors is disclosed properly.

SES ESG Rating does not only look into disclosures practices of the Company but also takes into account factual position and future targets (based on disclosures) of the Company on ESG factors. The Model also evaluates the **performance** of the Company for given policy or target over a period of time.

*For instance: under Health & Safety Policy, not only existence of policy is examined but also whether the Company follows Health & Safety Policy, any standards applied for Health & Safety, number of fatalities / injuries Y-o-Y, steps taken to reduce such fatalities / injuries etc.*

Overall, **ESG Rating** is an outcome of the analysis of the Company's disclosure practices, policies, present/ actual position, progress/ transition and future plans of the Company. Further, the Model also provides positive scores based on implementation of sustainable practices and meeting the parameters of performance evaluation (e.g. achievement of status of being Carbon Neutral).

# ESG EVALUATION MODEL

## SECTION WEIGHTAGE – ONE SIZE DOES NOT FIT ALL IS WHAT SES BELIEVES.

### Industry Differentiator

A common question is how can you have same parameter for evaluating a mining company and a service company or a consumer product company?

Conscious of the fact that one size does not fit all, SES has taken care to ensure that proper rationale and logic is applied while assigning weightage between three factors E, S & G in an objective manner. The weightage of Environment, Social and Governance factors in Model vary based on industry classification. While arriving at the weightage of each of the heads and sub-heads within three factors, SES has taken into account the weightage of each of the sub-heads considered in the ‘Standards set by the Sustainable Accounting Standards Board’ and ‘SASB Materiality Map’ (SASB) are considered (now part of IFRS Foundation & ISSB – as Source of Guidance).

Based on SASB Standards and SASB Materiality Map, SES ESG has determined the weightages, which varies from the industry to industry based on materiality of issues to the relevant industry.

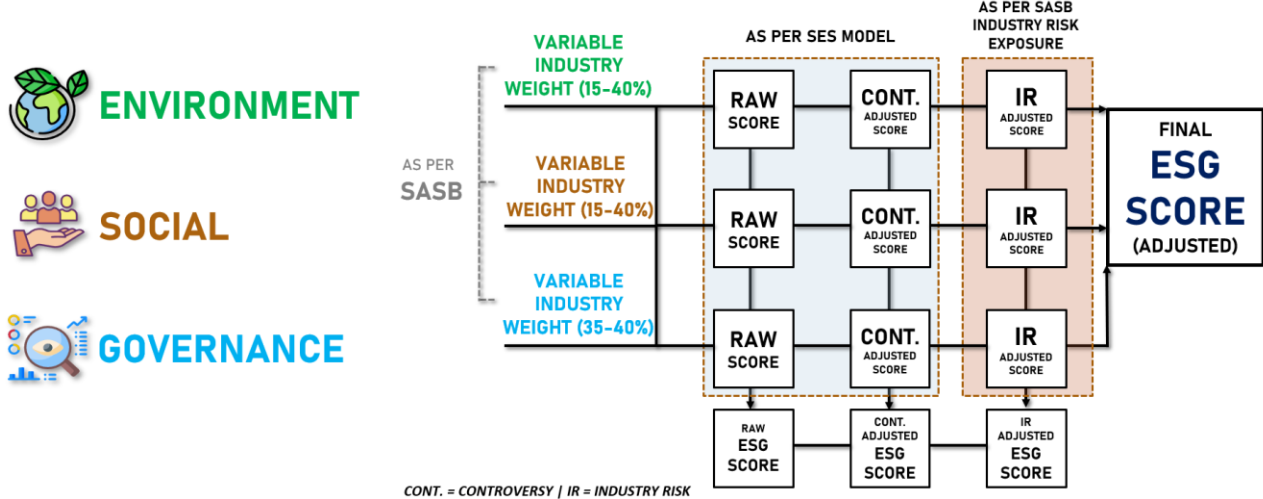
It may be noted that:

*“SES licenses and uses the SASB Materiality Map® Disclosure Topics and SICS in ESG Work”*

### Division into 3 Pillar:

The overall ESG Rating is arrived based on weightage assigned to each of three pillar E, S & G, depending on the Industry to which assessed company belongs.

Generally, the weightage of each industry changes based on material issue. For instance, a Chemical Industry has higher environment weightage as compared to a pure service company.



**Raw Scores** - Under E, S & G heads, set parameters or indicators which reflect the Company’s performance towards their ESG factors are evaluated. Under each parameter, various sub-parameters are analysed and scored. The weightage of each sub-parameter also varies based on the type of industry and is based on the materiality of each sub-parameter for that type of industry, based on the SASB Materiality Map / Standards for that industry. Materiality of each parameters is either High, Medium or Low based on SASB materiality map within the ESG Model. The weightage within the same industry group is fixed and applied uniformly to all companies in same industry. **No individual company wise weightage adjustment is done.**

For instance, a Chemical Industry has higher environment weightage as compared to a pure service company. For companies operating in a particular industry, following are the range of weightages:

## ESG EVALUATION MODEL

ENVIRONMENT	SOCIAL	GOVERNANCE
15-40%	15-40%	35-45%
Varies from Industry to Industry		

The weightage of each question in the model is assigned based on the assumption that all the questions under each sub-category are applicable to the company being evaluated. If any question is not applicable for a particular industry/company, the weightages of such questions are automatically redistributed on the remaining applicable questions. Each ESG parameter is analyzed not only based on the mandatory legal requirements but also based on the best practices followed around the globe.

Disclosures made by companies are evaluated for their adequacy of information. Higher score is awarded for disclosures which are informative, meaningful and considered adequate and serve the objective behind disclosure. Thus, model is designed to value “disclosure in spirit” higher compared to “disclosure in letter”. The Model evaluates the quality of disclosure practices and quantifies them in the form of sectional / sub-sectional scores, which are collectively viewed by applying appropriate weights.

Each question has a highest absolute score of 5 and lowest of 0 (or highest score of 100 and lowest of 0). SES ESG has set criteria and information disclosed is mapped against the criteria. Verified information forms the basis of score for each of the question.

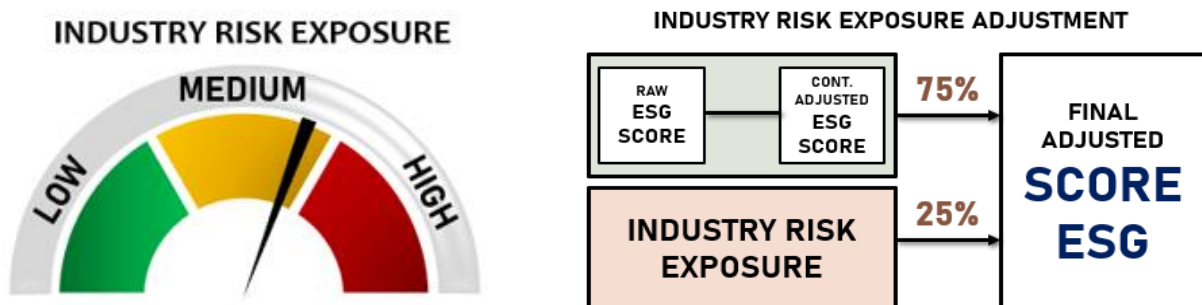
Further, in case of high intensity negative impact on environment (e.g. mismatch in Reporting), Social (e.g. high number of fatality reported) and governance (e.g. ethical / bribery misconduct), an additional 25% of marks are deducted from the relevant theme. This score adjustment is different from controversy exposure, and is based on pre-determined parameters to avoid any issue of subjective analysis. The objective of this adjustment is to provide more relevance and penalise for poor practice on material factors / key issue, which are not in nature of controversy.

The raw ESG score is a culmination of section wise scores obtained by the company on Environment, Social and Governance score based on weightage of each of these sections. The ESG score objectively depicts the company’s awareness of ESG issues, steps and initiatives taken by the Company to imbibe sustainable and good governance practices and lastly the effectiveness in incorporating these practices.

**Controversy Exposure:** SES ESG as a policy adjusts scores (negative adjustment up to 25% based on severity) of a factor whenever there is an extra-ordinary issue / concern, which is highly subjective, and cannot be covered under model evaluation i.e. raw scores. For instance, cases such material irregularities / negative controversy(ies) / regulatory action etc.

*Note: Users may accept or ignore or reduce/increase the controversy adjustment score*

**Industry Risk Exposure:** To determine the risk exposure of an Industry, SES ESG has referred to SASB Materiality Map or Materiality Finder. Based on the issue, materiality information and inputs, SES ESG through its methodology has arrived at E&S Risk Exposure Score of a particular Industry. Based on the E&S Risk Exposure score, the ESG Score of the Company will be accordingly adjusted in the following manner. G factor is taken as agnostic to industry/ sector classification.





# ESG EVALUATION MODEL

ESG	FOOTPRINT	HIGH		MEDIUM			LOW	
	SCORE	90-100	80-90	70-80	60-70	50-60	40-50	0-40
	RISK	LOW		MEDIUM			HIGH	
ESG GRADE		A+	A	B+	B	C	D	E

**CHANGES IN 2024 MODEL:** SES has updated its grading scale in 2024. Following are the changes:

Existing	Revised
B-	C
C+	D
C & D	E

- **ESG Ratings / Score** also referred as Final Adjusted ESG Score / Combined ESG Score: Score depicts final adjusted ESG Score of the Company (based on analysis on parameters under Environment, Social and Governance) with all adjustments.
- **ESG Grade:** ESG score is given both in Numeric form out of 100 as also converted to “Alpha Grades”.

**In Addition to the above, following additional Statutory Scores are also given:**

**Core ESG Score:** It analyses the parameters as identified / will be identified by the SEBI as part of CORE ESG Framework. Core ESG Score is arrived based on the following:

- CORE ESG SCORE – It is based on disclosure of SEBI identified Core Parameters. Disclosure on all Core Parameters shall reflect 100% score.
- CORE PARIVARTAN SCORE: It is based on y-o-y change / transition for Core Parameters. Positive change (e.g. decrease in Scope 1 Emission Intensity) or already at best (e.g. Zero Fatalities) shall reflect 100% score.
- CORE COMBINED SCORE: It is based on combination of scores of Core ESG (20%) & Core Parivartan (80%). The combined shall reflect outcome of both disclosure practice & performance of core parameters.

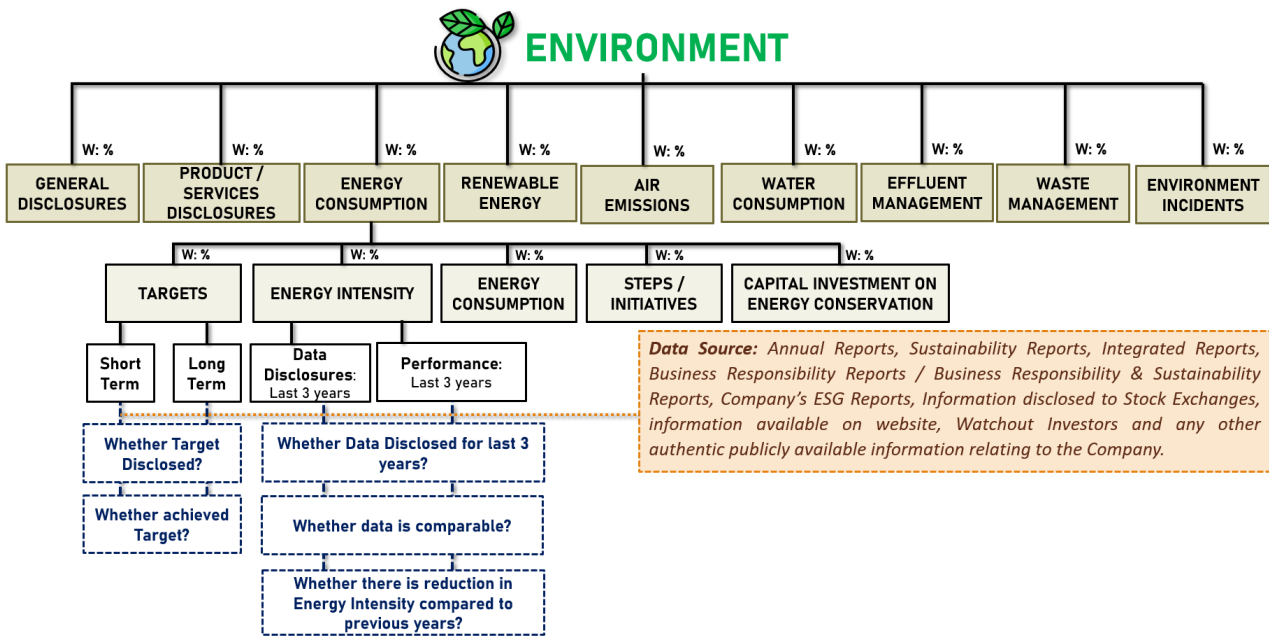
It may be noted that as per SEBI requirements Core Score is to be given based on assured parameters only. However, at present assurance requirement for Core Parameter is mandated for Top 150 companies by market capitalisation only. Therefore, to analyse where other companies stand at present until their turn for mandate, SES has provided Core Score under following categorisation:

- Fully Assured: This is strictly as per SEBI requirement and for companies who have assured all the parameters identified under Core Framework (e.g. Top 150 companies which are mandated to do full assurance of core parameters).
- Partial Assurance: This is based assured parameters of some of the Core parameters (e.g. not fully assured, however, assured certain data sets such as energy data, employee data etc
- Unassured: This is based on Core Parameters, which are unassured (e.g. Companies beyond Top 150 who are not mandated to do assurance and had also voluntarily not done)

**Parivartan Score:** It analyses the quantitative parameters and reflects the incremental changes that the company has made in its transition story. However, this score is limited to quantitative data wherein y-o-y change can be ascertained. Since, the SES Model also contains analysis of qualitative parameters, the change % in final ESG score may not appear to be aligned to change % in Parivartan; as Parivartan is one part of final ESG score.

# ESG EVALUATION MODEL

## EXAMPLE: FLOWCHART FOR ARRIVING AT ENVIRONMENT SCORE



- The above example showcases salient parameters of Energy Consumption.
- Based on different Sectors / Industries, the weightage of a particular company is changed considering the level of ESG impact on that company being a particular Sector / Industry (E.g. Manufacturing Companies may have High weightage for E, whereas in case of finance companies, the same will be low)
- The category score is given based on various questions and parameters forming part of that category, in the scale of 0-100%.
- Weighted Score is calculated based on the weight given to each category [For Example: Category Score is 75, Weight is 20% then Weighted Score would be 15 (i.e. 75\*20%)]
- The sum of each Weighted Score represents the total score of that section / factors / pillars (viz. Environment Pillar / Social Pillar / Governance Pillar) [For Example: Weighted Score 1 = 15, Weighted Score 2 = 20 and Weighted Score 3 = 30, then total score for that Section / Factor / Pillar would be 65]
- In case of any negative controversies, 25% shall be deducted.

## EVALUATION MODEL - DYNAMIC

With various changes in Regulatory and Voluntary requirements in ESG space, SES has always considered the developments and incorporated them into the Model, i.e. SES Model is not static, rather it evolves and incorporate important & relevant developments from time to time. Therefore, when evaluation is done on modified or added parameters along with existing parameters, the scores of the Company may vary compared to previous year. For e.g. the score of a Company may get reduced due to non-meeting or responding to the newly added parameter.

However, with introduction of BRSR and various other ESG related developments & recommended & planned in phased manner by SEBI, SES expects that in next couple of years, ESG disclosures may settle down. Meanwhile, at present, with frequent changes in ESG space, SES has no choice but to adopt the developments so as to do meaningful evaluation & analysis. SES believes that evaluation cannot be done and if done will not be relevant/ useful if carried out on the basis of historical model. Since any change in model is agnostic to any company in particular, its impact is uniform across all companies.

### INFORMATION SOURCE

SES ESG uses only public data using following sources of information:

Business Responsibility & Sustainability Reports (BRSR), Annual Reports, Sustainability / Integrated / ESG Reports, information disclosed to stock exchanges, information available on website of the Companies, any regulator especially sectoral regulator, Watchout Investors, and any other authentic publicly available information relating to the Companies.

The Ratings are worked out only on the basis of published information available in public domain and no forensic work has been done. As a result, any information which has not been disclosed in the public domain shall not be taken into consideration. SES ESG believes that disclosure must be adequate and in public domain, therefore as a matter of principle and to maintain absolute independence and fairness to all company's SES extracts information available in public domain only and no interaction is done with the companies.

### LIMITATIONS OF THE MODEL

SES ESG Model has been developed with utmost care, objectivity and diligence. Our intention is to bring to focus the importance of good ESG practices. SES understands that stakeholders take decisions based on multiple factors, ESG being an important factor. SES ESG scores alone cannot be used for decision to invest and are to be used as a supplement / an additional tool to help stakeholders to make a considered and holistic view about the company. SES ESG Ratings / scores in isolation cannot be a predictor of company's future performance.

The scores are calculated from publicly available data and are dependent on information made available by company and taken as true in good faith. For instance – BRSR, Sustainability Reports, reports by Auditors, certificate of compliance of mandatory requirements and directors' statements and information as disclosed in Annual Reports is used as it is at its face value without any further cross verification for the scoring purpose. Independent analysts like SES do not know the internal happenings of a company, nor do we have an inside view of the company's practices. It may be possible that while on paper based on available information everything might appear to be in order but in reality, there could be concerns plaguing the company or vice versa. It is beyond scope of our work, nor we possess such expertise to cross verify the public documents and / or visit the company to check its internal controls, checks and practices. Users may take a note of same and read our Ratings / scores accordingly.



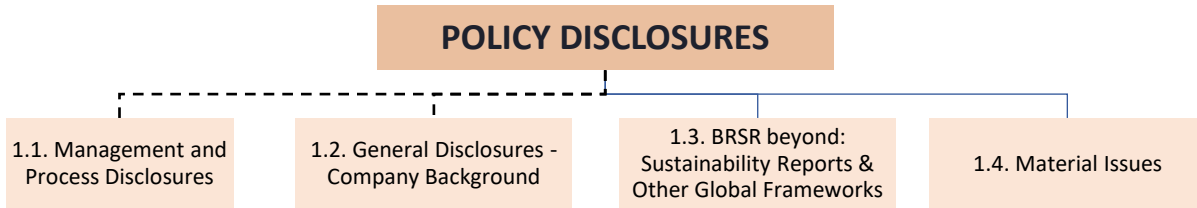
## ANNEXURE I – EVALUATION PARAMETERS

### ESG MODEL: EVALUATION & ASSESSMENT FACTORS



## POLICY DISCLOSURES REMOVED

**About:** As this evaluation is unique to SES, to highlight that making policy is low hanging fruit but implementation is difficult. Having consistently demonstrating that most companies have very high Policy score but same is not reflected in ESG performance score. **This section of analysis is removed effective 2024.**



#### CHANGES IN 2024 MODEL:

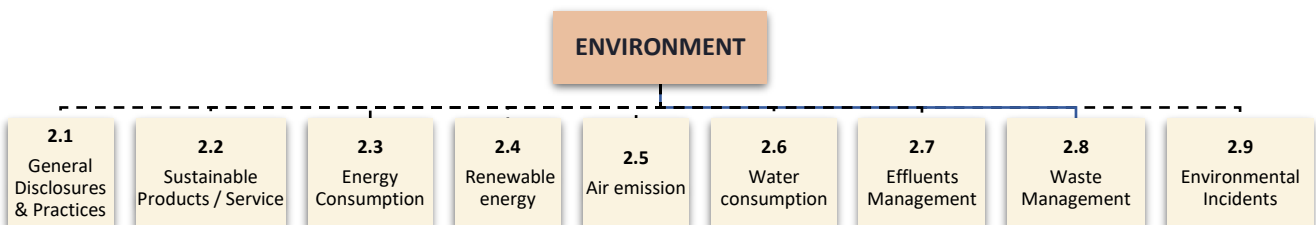
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Accordingly, separate pillar of Policy Disclosures has been removed from evaluation, and all the weights of Policy Pillar (5%) is redistributed proportionately to Environmental & Social Pillar (based on industry specific weights)



## ENVIRONMENT

**About:** SES analyses Company’s disclosure regarding impact of operations on the environment and steps being taken by the Company to mitigate its effect on the environment. Additionally, it also analyses, whether the Company managed to reduce its impact on environment and was meeting the targets set.



Note: In addition to above, Indirect Environmental impact parameters is also analysed in case of Banks & Insurance

#### 2.1. GENERAL DISCLOSURES & PRACTICES

**Assessment Factors:** Company’s general disclosures and practices relating environment are analysed;

- PAT Scheme
- Green or environmentally friendly offices or buildings
- Board-level oversight of climate-related issues
- GHG Emissions projects
- Waste Management Strategies
- Business Continuity / Disaster Management Plan



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- Environment Impact Assessments of the projects
- Ecologically Sensitive Area / Bio-Diversity
- Environment related certifications
- Environment Policies / Climate Change policies

## 2.2. SUSTAINABLE PRODUCT OR SERVICES

**Assessment Factors:** Company's disclosures and practices relating to products or services impacting environment due to;

- Sustainable Sourcing / Resource Efficiency
- Product packaging
- Product life cycle assessment (LCA)
- EPR
- Value Chain

## 2.3. ENERGY CONSUMPTION

**Assessment Factors:** Company's disclosures & practices related to energy consumption;

- Targets set and its achievements
- Disclosure of data on total energy consumption / energy intensity (*Turnover, PPP Adjusted and Volume*)
- Reduction in total energy consumption / energy intensity
- Steps taken to conserve energy or reduce energy consumption
- Investment on energy conservation equipment

## 2.4. RENEWABLE ENERGY

**Assessment Factors:** Company's disclosures & practices on usage of renewable energy in its total energy mix;

- Targets set and its achievements
- Renewable energy usage data – Absolute and % share in Energy Mix
- Steps or initiatives for increasing renewable energy usage

## 2.5. AIR EMISSIONS

**Assessment Factors:** Company's disclosures & practices on Air / GHG emissions;

- Targets set and its achievements
- Disclosure of data on total GHG/ Carbon emissions or GHG/ Carbon intensity (*Turnover, PPP Adjusted and Volume*)
- Carbon Neutral or Net Zero Emissions.
- Disclosure of data on other emissions such as PM, Sox, VOC etc
- Steps or initiatives taken to reduce GHG / Carbon emissions

## 2.6. WATER CONSUMPTION

**Assessment Factors:** Company's disclosures & practices on water usage or consumption;

- Targets set and its achievements
- Disclosure of data on total water consumption / water intensity (*Turnover, PPP Adjusted and Volume*)
- Water Management in Water Stress areas or regions
- Water Neutrality / Water Positive
- Steps or initiatives taken to reduce / recycle / re-use water

## 2.7. EFFLUENTS WASTE MANAGEMENT

**Assessment Factors:** Company's disclosures & practices on effluents generation & its management;

- Targets set and its achievements
- Disclosure of data on total effluents / effluents intensity
- Steps or initiatives taken to reduce / recycle / re-use waste water
- Zero Liquid Discharge

## 2.8. WASTE MANAGEMENT

**Assessment Factors:** Company's disclosures & practices on Waste generation & its management;

- Targets set and its achievements
- Types of waste: Waste (Hazardous / Non-Hazardous / E-Waste / Battery Waste / Plastic Waste etc.)
- Waste Intensity (*Turnover, PPP Adjusted and Volume*)
- Status of Plastic Positive / Zero Waste



# ESG EVALUATION MODEL

- Disclosures on mode of waste disposal viz. waste to landfill, incineration etc
- Steps or initiatives taken to reduce / recycle / re-use

## 2.9. ENVIRONMENTAL COMPLIANCE & CONTROVERSIES & INCIDENTS

### Assessment Factors:

- Compliance with environmental laws
- Environmental incidents which may pose a risk for the Company or its reputation.
- Controversies / Negative Incidents

### CHANGES IN 2024 MODEL:

SES in its evaluation considers company performance not only based on 1 year transition but also y-o-y transition to ascertain whether the Company disclosures & performance is consistent and not an one off event.

**2023:** Since FY 2022-23 was the first year of mandate of Business Responsibility & Sustainability Reporting, SES had evaluated company based on 2 years disclosures for certain indicators, performance-based transition compared to previous FY (i.e. 1 year).

**2024:** Now, for FY 2023-24, the BRSR Report will be available for 2 years i.e. 3 years data will be available. Accordingly, for FY 2023-24 SES will analyse company's disclosures based on 3 years and performance-based transition for 2 years.

**2025 & way forward:** Similarly, for FY 2024-25 and thereafter, 4 years and more year's data will be available. Accordingly, for FY 2024-25 & thereafter SES will analyse company's disclosures based on 4 years and performance-based transition for 3 trends between 4 years.

### IMPACT ON RATINGS:

There will be no impact on Ratings if the Company has made consistent disclosures & met all performance parameters for all the years as mentioned above. The variations will be observed if the data is not available or not disclosed for any of the year or positive performance / transition is not consistent over the years.

In view of the above changes in model in terms of new additions of questions and additional parameters of analysis (2 years transition) etc, following shall be the changes in scores compared to previous year model in worst case scenario basis

- Case 1:
  - 1.1. Company has disclosed data only for 2 years (instead of 3 years). This shall have impact on companies who have not disclosed BRSR for FY 2023-24.
  - 1.2. Additional New Questions / Parameters (other than case at point 1.1.). For example, addition of new questions due to Core BRSR requirements. This shall have impact on companies who have not disclosed the new disclosures.
- Case 2: Additional New Questions / Parameters (other than case at point 1.1.). For example, addition of new questions due to Core BRSR requirements. This shall have impact on companies who have not disclosed the new disclosures.

FACTORS	Max % Change out of 100% due to	
	CASE 1	CASE 2
2.1. General Disclosure & Practices	-5.8%	-5.8
2.2. Sustainable Product or Services	0.0	0.0
2.3. Energy Consumption	-22.8%	-10.5
2.4. Renewable Energy	-11.4%	0.0
2.5. Air Emissions	-24.6%	-10.5
2.6. Water Consumption	-23.2%	-9.2
2.7. Effluents / Waste Water Management	-10.0%	0.0
2.8. Waste Management	-33.3%	-5.0
2.9. Environmental Compliance & Controversial Incidents	0.0	0.0

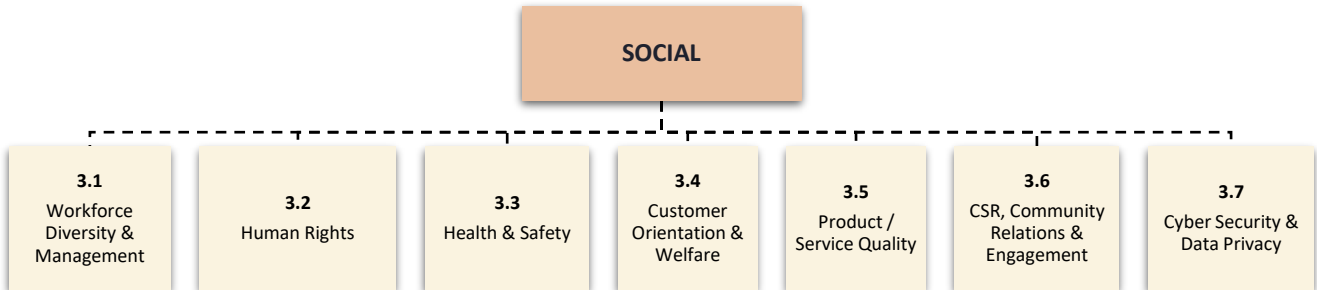


# ESG EVALUATION MODEL



## SOCIAL

**About:** Scores obtained by sample companies on S factor have been analysed under this head, mainly covering Company’s disclosure regarding its relationship with its human capital and relationship with its stakeholders. Analysis included evaluation of practices and policies adopted by the Company for fair and equitable treatment of all stakeholders.



*Note: In addition to above, Financial Inclusion parameters is also analysed in case of Banks & Insurance*

### 3.1 WORKFORCE DIVERISTY & MANAGEMENT

**Assessment Factors:** Disclosure on workforce and various workforce related practices;

- Workforce details
- Employees with Disability
- Parental Leave: Return to Work / Retention
- Workforce Development & Training
- Workforce Grievance Mechanism
- Gender Diversity
- Workforce Turnover Rate
- Retirement Benefits
- Equal Opportunity
- Strikes or wage disputes

### 3.2. HUMAN RIGHTS

**Assessment Factors:** Disclosure on Human Rights and related practices;

- Training on Human Rights
- Median Remuneration & Gender Pay Gap
- Child Labour / Discriminatory Employment
- Committee for Human Rights
- Value Chain Assessment – Human Rights
- Payment of Minimum Wages
- Anti-Sexual Harassment Practices & Complaints
- Wages related complaint
- Human Rights grievances mechanism
- Actions on Human Rights issues

### 3.3. HEALTH & SAFETY

**Assessment Factors:** Disclosure & practices on Health & Safety of the Company;

- Health & Safety practices
- Training on Health & Safety
- Complaints: Working Conditions
- Wellbeing of Workforce (Insurance, Maternity leave etc)
- Safety Records
- Other Disclosures & Practices

### 3.4. CUSTOMER ORIENTATION & WELFARE

**Assessment Factors:**

- Mechanism to receive and respond to consumer complaints and feedback
- Steps taken to educate / inform customers about products / services
- Channels / platforms where information on products and services of the entity can be accessed
- Mechanisms in place to inform consumers of any risk of disruption/discontinuation of essential services.
- Customer related surveys
- Complaints: Advertising; Delivery of Essential Services; Restrictive Trade Practices; Unfair Trade Practices

# ESG EVALUATION MODEL

## 3.5. PRODUCT / SERVICE QUALITY

### Assessment Factors:

- Product / Service Quality, Safety and any product / service related incidents
- Instances of Product Recall: Forced or Voluntary

## 3.6. CSR, COMMUNITY RELATIONS & ENGAGEMENT

### Assessment Factors:

- Mechanisms to receive and redress grievances of the community
- Company's Corporate Social Responsibility (CSR) spending
- Disclosures relating to initiatives taken by the Company to improve communities
- Social Impact Assessments (SIA) of projects
- Rehabilitation and Resettlement (R&R)
- Job creation in smaller towns
- Political donations
- Financial Inclusion (for Banks)

## 3.7. CYBER SECURITY & DATA PRIVACY

### Assessment Factors:

- Cyber / Data security practices of the Company
- Policy on Cyber Security
- Risk Management function on Cyber Security
- Instances of data breaches
- Data breaches involving personally identifiable information of customers
- Steps taken to ensure safe security system (IT security, firewalls, initiatives etc)
- Complaints: Data Security / Data Privacy

### **CHANGES IN 2024 MODEL:**

SES in its evaluation considers company performance not only based on 1 year transition but also y-o-y transition to ascertain whether the Company disclosures & performance is consistent and not an one off event.

**2023:** Since FY 2022-23 was the first year of mandate of Business Responsibility & Sustainability Reporting, SES had evaluated company based on 2 years disclosures for certain indicators, performance-based transition compared to previous FY (i.e. 1 year).

**2024:** Now, for FY 2023-24, the BRSR Report will be available for 2 years i.e. 3 years data will be available. Accordingly, for FY 2023-24 SES will analyse company's disclosures based on 3 years and performance-based transition for 2 years.

**2025 & way forward:** Similarly, for FY 2024-25 and thereafter, 4 years and more year's data will be available. Accordingly, for FY 2024-25 & thereafter SES will analyse company's disclosures based on 4 years and performance-based transition for 3 trends between 4 years.

### **IMPACT ON RATINGS:**

There will be no impact on Ratings if the Company has made consistent disclosures & met all performance parameters for all the years as mentioned above. The variations will be observed if the data is not available or not disclosed for any of the year or positive performance / transition is not consistent over the years.

In view of the above changes in model in terms of new additions of questions and additional parameters of analysis (2 years transition) etc, following shall be the changes in scores compared to previous year model in worst case scenario basis

- Case 1:





## ESG EVALUATION MODEL

- 1.1. Company has disclosed data only for 2 years (instead of 3 years). This shall have impact on companies who have not disclosed BRSR for FY 2023-24.
- 1.2. Additional New Questions / Parameters (other than case at point 1.1.). For example, addition of new questions due to Core BRSR requirements. This shall have impact on companies who have not disclosed the new disclosures.
- Case 2: Additional New Questions / Parameters (other than case at point 1.1.). For example, addition of new questions due to Core BRSR requirements. This shall have impact on companies who have not disclosed the new disclosures.

FACTORS	Max % Change out of 100% due to	
	CASE 1	CASE 2
3.1. Workforce Diversity & Management	-19.6%	-0.3
3.2. Human Rights	-20.0%	-5.9
3.3. Health & Safety	-25.0%	0.0
3.4. Customer Orientation & Welfare	-28.1%	-17.8
3.5. Product / Service Quality	-51.3%	-14.0
3.6. CSR, Community Relations & Engagement	-18.3%	-18.3
3.7. Cyber Security & Data Privacy	-6.0%	-3.3

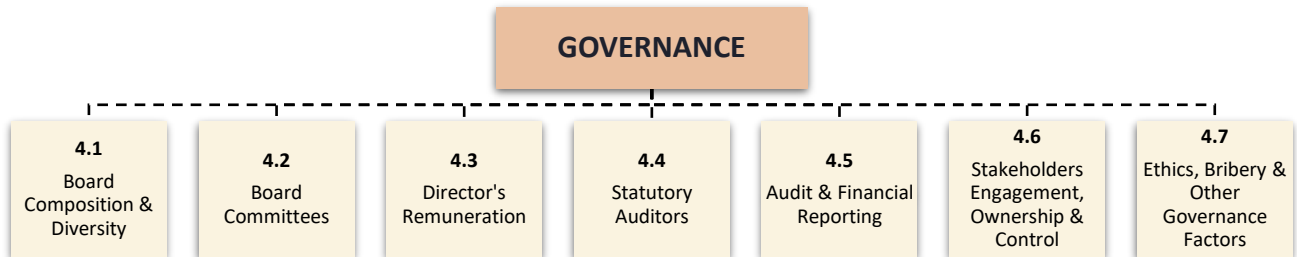


# ESG EVALUATION MODEL



## GOVERNANCE

**About:** Scores obtained by sample companies on G factor have been analysed under this head, mainly covering Company's Board related practices such as Board Composition, remuneration, committee composition and performance. Further, section also analyses Statutory Auditors, Audits, Financial Reporting and Stakeholder Engagement functions.



### 4.1 BOARD INDEPENDENCE & DIVERSITY

**Assessment Factors:** Companies Board structure including;

- Board Expertise
- Association and Independence of Directors
- Combination of Independent & Non-Independent Directors
- Woman Director(s)
- Board Diversity – Gender, Expertise
- Attendance & Time Commitments
- Age profile of directors

### 4.2. BOARD COMMITTEES

**Assessment Factors:**

- Composition of various committees: Audit, Nomination and Remuneration, Stakeholders Relationship, Corporate Social Responsibility (“CSR”) and Risk Management
- Director’s attendance in those committee meetings

### 4.3. DIRECTOR’S REMUNERATION

**Assessment Factors:** Remuneration comparison with respect to;

- Total Board Remuneration & Practice
- Promoter and Non-Promoter
- Sustainability related payments
- Board Evaluation
- Executive & Non-Executive Directors
- Independent Directors
- Clawback & Malus

### 4.4. STATUTORY AUDITORS

**Assessment Factors:** Disclosure & practices on;

- Appointment of Statutory Auditor
- Exit of Auditors
- Association of Audit Partner
- Fees of Auditors
- Regulatory Action on Statutory Auditors

### 4.5. AUDIT & FINANCIAL REPORTING

**Assessment Factors:**

- Audit qualifications
- Contingent Liabilities
- Related party transactions
- Fraud Reporting
- CARO Disclosures & Analyses
- Other financial parameters

### 4.6. STAKEHOLDERS ENGAGEMENT, OWNERSHIP & CONTROL

**Assessment Factors:** Companies’ stakeholder’s engagement practices including;

- Shareholder Complaints & Communications
- Voting in Shareholder Meetings
- Regulatory Actions relating to Capital Markets
- Pledging of shares
- Dividend Distribution Policy



# ESG EVALUATION MODEL

## 4.7. ETHICS, BRIBERY & OTHER GOVERNANCE FACTORS

### Assessment Factors: Disclosures & practices on;

- Code of Conduct
- Whistle Blower / Vigil Mechanism
- Conflict of Interest
- Insider Trading
- Ethics, Anti-Bribery or Anti-Corruption practices
- ESOPs / Issues of Securities

### **CHANGES IN 2024 MODEL:**

SES has added questions relating to open-ness of business of parameters as identified in BRSR Core.

### **IMPACT ON RATINGS:**

There will be no impact on Ratings if the Company has made consistent disclosures & met all performance parameters for all the years. The variations will be observed if the data is not available or not disclosed for any of the year or positive performance / transition is not consistent over the years.

In view of the above changes in model in terms of new additions of questions and additional parameters of analysis (open-ness of business) etc, following shall be the changes in scores compared to previous year model in worst case scenario basis:

FACTORS	MAX % CHANGE OUT OF 100% DUE TO ADDITION OF NEW QUESTIONS
3.1. Workforce Diversity & Management	0.0
3.2. Human Rights	0.0
3.3. Health & Safety	0.0
3.4. Customer Orientation & Welfare	0.0
3.5. Product / Service Quality	-6.3
3.6. CSR, Community Relations & Engagement	0.0
3.7. Cyber Security & Data Privacy	-5.0

### ANNEXURE II – CORE ESG PARAMETERS

- SEBI ('Board') vide Circular dated May 10, 2021 had prescribed the Business Responsibility and Sustainability Report (BRSR) which was subsequently incorporated in the Master Circular dated July 11, 2023 ([Weblink](#)).
- Based on the recommendations of the ESG Advisory Committee and pursuant to public consultation, the Board decided to introduce the BRSR Core for assurance by listed entities.
- The BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs) / metrics under 9 ESG attributes.

The following are the identified core parameters:

SR.	ATTRIBUTE	PARAMETERS	MEASUREMENT	SES COVERAGE SECTION
1	Green-house gas (GHG) footprint	Total Scope 1 emissions	Mn MT / KT / MT	2.5.
2	Green-house gas (GHG) footprint	Total Scope 2 emissions	Mn MT / KT / MT	2.5.
3	Green-house gas (GHG) footprint	GHG Emission Intensity (Scope 1 + 2) [Total Revenue from Operations adjusted for PPP]	Total Scope 1 and Scope 2 emissions (MT) / Total Revenue from Operations adjusted for PPP	2.5.
4	Green-house gas (GHG) footprint	GHG Emission Intensity (Scope 1 + 2) [Total Output of Product or Services]	Total Scope 1 and Scope 2 emissions (MT) / Total Output of Product or Services	2.5.
5	Water Footprint	Total water consumption	Mn Lt or KL	2.6.
6	Water Footprint	Water consumption intensity [Total Revenue from Operations adjusted for PPP]	Mn Lt or KL / Rupee adjusted for PPP	2.6.
7	Water Footprint	Water consumption intensity [Total Output of Product or Services]	Mn Lt or KL / Product or Service	2.6.
8	Water Footprint	Water Discharge by destination and levels of Treatment - Surface Water (Treated or Untreated) - Groundwater (Treated or Untreated) - Seawater (Treated or Untreated) - Sent to Third Parties (Treated or Untreated) - Others (Treated or Untreated) - Total water discharged (Treated or Untreated)	Mn Lt or KL	2.7.
9	Energy footprint	Total energy consumed	In Joules or multiples	2.3.
10	Energy footprint	% of energy consumed from renewable sources	In % terms	2.4.
11	Energy footprint	Energy intensity [Total Revenue from Operations adjusted for PPP]	Joules or multiples / Rupee adjusted for PPP	2.3.
12	Energy footprint	Energy intensity [Total Output of Product or Services]	Joules or multiples / Product or Service	2.3.
13	Embracing circularity – details related to waste management by the entity	Plastic waste (A)	Kg / MT	2.8.
14	"	E-waste (B)	Kg / MT	2.8.
15	"	Bio-medical waste (C)	Kg / MT	2.8.
16	"	Construction and demolition waste (D)	Kg / MT	2.8.
17	"	Battery waste (E)	Kg / MT	2.8.
18	"	Radioactive waste (F)	Kg / MT	2.8.
19	"	Other Hazardous waste (G)	Kg / MT	2.8.
20	"	Other Non-hazardous waste (H)	Kg / MT	2.8.
21	"	Total waste generated	Kg / MT	2.8.
22	"	Waste intensity [Total Revenue from Operations adjusted for PPP]	Kg or MT / Rupee adjusted for PPP	2.8.
23	"	Waste intensity [Total Output of Product or Services]	Kg or MT / Unit of Product or Service	2.8.

## ESG EVALUATION MODEL

SR.	ATTRIBUTE	PARAMETERS	MEASUREMENT	SES COVERAGE SECTION
24	Embracing circularity – details related to waste management by the entity	Each category of waste generated, total waste recovered through recycling, re-using or other recovery operations - Waste Recovered: Recycled - Waste Recovered: Re-Used - Waste Recovered: Others - Total Waste Recovered	Kg or MT	2.8.
25	Embracing circularity – details related to waste management by the entity	For each category of waste generated, total waste disposed by nature of disposal method - Waste Disposed: Incineration - Waste Disposed: Landfilling - Waste Disposed: Others - Total Waste Disposed	Kg or MT	2.8.
26	Enhancing Employee Wellbeing and Safety	Spending on measures towards wellbeing of employees and workers – cost incurred as a % of total revenue of the company	In % terms	3.1.
27	Enhancing Employee Wellbeing and Safety	Details of safety related incidents for employees and workers (including contract-workforce e.g. workers in the company's construction sites) - Number of Permanent Disabilities - Lost Time Injury Frequency Rate (LTIFR) - [per one million-person hours worked] - Number of fatalities	Number of Permanent Disabilities-	3.3.
			Lost Time Injury Frequency Rate (LTIFR)	3.3.
			No. of fatalities	3.3
28	Enabling Gender Diversity in Business	Gross wages paid to females as % of wages paid	In % terms	3.2.
29	Enabling Gender Diversity in Business	Complaints on POSH - Total Complaints on Sexual Harassment (POSH) reported - Complaints on POSH as a % of female workforce - Complaints on POSH upheld	- Total Complaints on Sexual Harassment (POSH) reported	3.2.
			Complaints on POSH as a % of female employees / workers	3.2.
			Complaints on POSH upheld	3.2.
30	Enabling Inclusive Development	Input material sourced from following sources as % of total purchases – Directly sourced from MSMEs/ small producers and from within India	In % terms – As % of total purchases by value	3.6.
31	Enabling Inclusive Development	Job creation in smaller towns – Wages paid to persons employed in smaller towns (permanent or non-permanent /on contract) as % of total wage cost	In % terms – As % of total wage cost	3.6.
32	Fairness in Engaging with Customers and Suppliers	Instances involving loss / breach of data of customers as a percentage of total data breaches or cyber security events	In % terms	3.7.
33	Fairness in Engaging with Customers and Suppliers	Number of days of accounts payable	(Accounts payable *365) / Cost of goods/ services procured	3.6.
34	Open-ness of business	Concentration of purchases & sales done with trading houses, dealers, and related parties Loans and advances & investments with related parties	Purchases from trading houses as % of total purchases	4.5.
			Number of trading houses where purchases are made from	4.5.
			Purchases from top 10 trading houses as % of total purchases from trading houses	4.5.
			Sales to dealers / distributors as % of total sales	4.5.
			Number of dealers / distributors to whom sales are made	4.5.
			Sales to top 10 dealers / distributors as % of total sales to dealers / distributors	4.5.
			Share of RPTs in Purchases	4.5.
			Share of RPTs in Sales	4.5.
			Share of RPTs in Loans & advances	4.5.
			Share of RPTs in Investments	4.5.



## ESG EVALUATION MODEL

### ANNEXURE III – ESG PARAMETERS RELEVANT TO INDIAN CONTEXT

SEBI in its Master Circular dated 16<sup>th</sup> May, 2024 for ESG Ratings Provides has stated that ESG rating products shall suitably incorporate the environmental, social and governance aspects that are contextual to the Indian market. Accordingly, SES ESG covers the following Indian-Specific Parameters:

E/S/G PILLAR	FACTORS	PARAMETERS	SES COVERAGE SECTION
E	Energy	Perform, Achieve and Trade (PAT) - Does the entity have any sites / facilities identified as designated consumers (DCs) under the Performance, Achieve and Trade (PAT) Scheme of the Government of India? (Y/N) If yes, disclose whether targets set under the PAT scheme have been achieved. In case targets have not been achieved, provide the remedial action taken, if any.	2.1.
E	Water	Zero Liquid Discharge - Has the entity implemented a mechanism for Zero Liquid Discharge	2.7.
E	Waste Management	Extended Producer Responsibility (EPR) - Extended Producer Responsibility (EPR) is applicable to the entity's activities (Yes / No). If yes, whether the waste collection plan is in line with the Extended Producer Responsibility (EPR) plan submitted to Pollution Control Boards?	2.2.
E	Land Use and Biodiversity	Does the company have operations in or around ecologically sensitive areas (such as national parks, wildlife sanctuaries, biosphere reserves, wetlands, biodiversity hotspots, forests, coastal regulation zones etc.)?	2.1.
E / S	CSR	Amount spent in CSR as a percentage of regulatory requirement on a look-through basis i.e. where CSR activities are undertaken by trusts / foundations, whether the funds have been actually utilized by these entities	3.6.
S	Inclusive development	Job creation in smaller towns	3.6.
S	Inclusive development	Percentage of input material (inputs to total inputs by value) sourced from suppliers: - (i) Directly sourced from MSMEs/ small producers, (ii) Directly from within India	3.6.
S	Diversity	Disclosure of wages and salary by gender (%)	3.2.
S	Diversity	Job creation and availability of infrastructure conducive for differently abled	3.1.
G	Compliance	Does the company have a RegTech / Systems solution for monitoring and evidencing compliance	4.5.
G	Governance	Percentage of "against" votes amongst non-promoter shareholders on appointment of independent directors	4.1.
G	Related Party Transactions	Percentage of "against" votes amongst non-promoter shareholders on RPTs	4.5.
G	Royalty	Royalty payments - Is the increase in royalty over the last five years higher than increase in PBT? If yes provide values for last 5 years and the reason for increased royalty.	4.5.
G	Related Party Transactions	Share of RPTs (as respective %age) in - <ul style="list-style-type: none"> <li>• Purchases</li> <li>• Sales</li> <li>• Loans &amp; advances'</li> <li>• Investments (except for PSUs)</li> </ul>	4.5.



### **ANNEXURE IV – ESG PARAMETERS ANALYSED FOR PARIVARTAN SCORE**

SEBI in its Master Circular dated 16th May, 2024 for ESG Ratings Provides with respect to ESG Transition or Parivartan score has mentioned that measuring the velocity of and investments in making the transition to Net Zero Goals/improving ESG risk management. In other terms, the transition or Parivartan score would reflect the incremental changes that the company has made in its transition story over recent years or concrete plans/targets to address the risk and opportunities involved in transitioning to more sustainable operations, rather than scoring them only on their current profile. This transition score could track changes in quantitative metrics in trend-lines or change in revenues from environmental/social services and products or any quantitative assessments, as per the model of the ERP.

Accordingly, SES has identified the list of parameters from its ESG Model, based on which transition compared to previous year will be scored. This list contains core parameters and additional quantitative indicators wherein y-o-y change can be ascertained.



# ANNEXURE V - REPORTING FRAMEWORKS

## INDIA

### REPORTING FRAMEWORKS

#### NATIONAL VOLUNTARY GUIDELINES (“NVG”)

- This was India's first pilot regarding ESG. MCA introduced the NVG Guidelines.
- Companies are required on voluntary basis to adopt the principles of Business Responsibility and Report on their initiatives.

#### BUSINESS RESPONSIBILITY REPORTING (“BRR”)

- After MCA, SEBI in 2012 mandated top 100 Companies by market capitalisation to Report their initiatives on Business Responsibility in the Annual Report.
- SEBI also provided a specific format in which companies are required to respond to series of questions on Business Responsibility practices.
- This was further extended for top 500 companies. Also, advised on adoption of Integrated Reporting by top 500 companies on voluntary basis.

#### NATIONAL GUIDELINES ON RESPONSIBLE BUSINESS CONDUCT (“NGRBCS”)

- **March, 2019:** In order to align the NVGs with the emerging global concerns, the Sustainable Development Goals (SDGs), and the United Nations Guiding Principles on Business & Human Rights (UNGPs), the NVGs were revised and released as the National Guidelines on Responsible Business Conduct (NGRBCs).

#### EXTENSION OF BRR REPORTING TO TOP 1,000 COMPANIES

- **December, 2019:** SEBI extended the mandate to provide BRR to top 1,000 Companies from the FY 2019-20.

#### BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORT (“BRSR”)

- **August, 2020:** In 2018, the Ministry of Corporate Affairs (MCA) had constituted Committee on Business Responsibility Reporting for finalising Business Responsibility Reporting formats for listed and unlisted companies, based on the framework of the NGRBCs. SEBI was also part of this Committee and worked on the report. In August, 2020, post release of Committee Report, SEBI had published consultation paper on the format for Business Responsibility and Sustainability Reporting.
- **May 2021:** SEBI amended SEBI LODR with respect to requirement of publishing BR Report, and replaced it with BRSR Report. It stated that **with effect from the financial year 2022-2023, filing of BRSR shall be mandatory for the top 1000 listed companies (by market capitalization) and shall replace the existing BRR. Filing of BRSR was voluntary for the financial year 2021-22.**
- **2023-24:** SEBI had released following Regulations / Master Circulars with respect to ESG space:
  - **5<sup>th</sup> July, 2023:** SEBI (Credit Rating Agencies) (Amendment) Regulations, 2023 to introduce Regulations for ESG Ratings Provider.
  - **12<sup>th</sup> July, 2023:** Master Circular for ESG Rating Providers (ERPs) ([Weblink](#))
  - **12<sup>th</sup> July, 2023:** BRSR Core - Framework for assurance and ESG disclosures for value chain ([Weblink](#))
    - The format of **BRSR Core** for reasonable assurance. ([Weblink](#))
    - The BRSR format after incorporating new KPIs of BRSR Core ([Weblink](#))
  - **20<sup>th</sup> July, 2023:** New category of Mutual Fund schemes for Environmental, Social and Governance (“ESG”) Investing and related disclosures by Mutual Funds ([Weblink](#))





# ESG EVALUATION MODEL

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## OVERALL COMPLIANCE FRAMEWORKS

The questions in the model are designed to extract factual position of a company on its ESG performance. The questions are based on the disclosure requirements under various regulatory frameworks. In India, ESG regulatory framework can be broadly categorised into two parts, viz., the Compliance framework and the Reporting framework (as mentioned above).

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### ENVIRONMENT

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Companies, especially manufacturing companies are known to face the most environmental risk and exposure. Following Acts and Regulations relate to environment practices in India:

- Environment (Protection) Act, 1986
- Air (Prevention and Control of Pollution) Act, 1981
- Water (Prevention and Control of Pollution) Act, 1974
- The Indian Hazardous Wastes Management Rules Act 1989
- National Environment Tribunal Act, 1995

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### SOCIAL

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The social responsibilities of the Company emanate from its relations with various stakeholders such as the employees, customers, vendors, service providers, shareholders, etc. The social responsibilities of the Company are governed by various Acts and Regulations

- Factories Act, 1948
- Minimum Wages Act, 1948
- Sexual Harassment of Women at Workplace Act, 2013
- Applicable provisions of the Companies Act, 2013 and SEBI Regulations.
- Various other laws with respect to the payment of salaries/ wages, bonus, gratuity, welfare activities, insurance, health and safety, etc.

**New Codes:**

- The Code on Social Security, 2020
- The Industrial Relations Code, 2020
- The Code on Wages, 2019
- The Occupational Safety, Health and Working Conditions Code, 2020

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### GOVERNANCE

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The Governance indicators are related to the compliance practices of the Company with respect to the statutory norms as laid down under the Companies Act, 2013 and SEBI Regulations; which includes adequate Board structure, Board Remuneration, Independence of the Director, Board Committees and its functionality, Corporate policies, Auditors of the Company, Stakeholders engagement, etc

- The Companies Act, 2013, and Rules framed thereunder.
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018
- SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021
- SEBI (Prohibition of Insider Trading) Regulations, 2015 & other applicable Regulations

Apart from the above-mentioned legal requirements, sector specific laws are also considered. For example, in case of Banks, The Banking Regulation Act, 1949 & circulars issued by RBI etc.



# ESG EVALUATION MODEL

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## INTERNATIONAL

Various voluntary independent organisations have emerged in the last two decades which have provided globally accepted standards for reporting on ESG factors, and there has been a lot of consolidated of various standards and frameworks post COP26.

Sustainability reporting is designed to facilitate organizations to set goals, measure performance, and manage change in order to make their operations more sustainable and enable investors and other stakeholders to compare performance. A sustainability report conveys disclosures on an organization's impacts positive or negative – on the environment, society and other stakeholders. In doing so, sustainability reporting converts abstract issues to tangible and concrete measurable parameters, thereby assisting in understanding and managing the effects of sustainability developments on the organization's activities and strategy.

Internationally agreed disclosures and metrics enable information contained within sustainability reports to be made accessible and comparable, providing stakeholders with enhanced information to inform their decisions. Two most prominent sustainability reporting formats are GRI & IIRC (now Value Reporting Foundation – IIRC).

### **GLOBAL REPORTING INITIATIVE (“GRI”)**

The GRI Standards enable any organization – large or small, private or public – to understand and report on their impacts on the economy, environment and people in a comparable and credible way, thereby increasing transparency on their contribution to sustainable development. In addition to companies, the Standards are highly relevant to many stakeholders - including investors, policymakers, capital markets, and civil society. ([GRI Standards](#))

Three series of Standards support the reporting process: the GRI Topic Standards, each dedicated to a particular topic and listing disclosures relevant to that topic; the GRI Sector Standards, applicable to specific sectors; and the GRI Universal Standards, which apply to all organizations. Using these Standards to determine what topics are material (relevant) to report on helps organizations indicate their contributions – positive or negative – towards sustainable development.

**GRI Universal Standards:** The GRI Universal Standards apply to all organizations

**GRI Sector Standards:** The GRI Sector Standards intend to increase the quality, completeness, and consistency of reporting by organizations. Standards will be developed for 40 sectors, starting with those with the highest impact, such as oil and gas, agriculture, aquaculture, and fishing.

### **IFRS FOUNDATION (IFRS)**

The IFRS Foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards.

Our Standards are developed by our two standard-setting boards, the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB).

**International Sustainability Standards Board (ISSB):** IFRS Sustainability Disclosure Standards are developed by the International Sustainability Standards Board (ISSB). The ISSB is an independent standard-setting body within the IFRS Foundation.

IFRS Sustainability Standards are developed to enhance investor-company dialogue so that investors receive decision-useful, globally comparable sustainability-related disclosures that meet their information needs. The ISSB is supported by technical staff and a range of advisory bodies.

**Standards and frameworks:**



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- **IFRS Sustainability Standards:** Published IFRS 1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS 2 (Climate-related Disclosures)
- **Digital financial reporting:** Digital financial reporting allows investors and other users of financial reports to efficiently search, extract and compare companies' accounting and sustainability-related financial disclosures. A digital financial report is a financial report in a computer-readable, structured data format (such as XBRL). The IFRS digital taxonomies facilitate the reporting of information prepared in accordance with IFRS Standards in a computer-readable, structured data format.
- **Climate Disclosure Standards Board:** Climate Disclosure Standards Board (CDSB) was an international consortium of business and environmental NGOs committed to advancing and aligning the global mainstream corporate reporting model to equate natural and social capital with financial capital.

CDSB Framework formed the basis for the TCFD recommendations and sets out an approach for reporting environmental information, including climate change and social information in mainstream reports, such as annual reports, 10-K filings or integrated reports.

CDSB has now been consolidated into the IFRS Foundation. This marks the completion of the first part of the commitment made by leading investor-focused sustainability disclosure organisations, CDSB and the Value Reporting Foundation (VRF) to consolidate into the IFRS Foundation by June 2022, providing staff and resources to the new International Sustainability Standards Board (ISSB). This consolidation confirms the closure of CDSB and no further technical work or content will be produced.

CDSB technical guidance will form part of the evidence base as the ISSB develops its IFRS Sustainability Disclosure Standards. CDSB's Framework and technical guidance on Climate, Water and Biodiversity disclosures will remain useful for companies until such time as the ISSB issues its IFRS Sustainability Disclosure Standards on such topics.

- **Integrated reporting:** The International Integrated Reporting Framework and Integrated Thinking Principles are used around the world—in over 75 countries—to advance communication about value creation, preservation and erosion.

The IFRS Foundation is committed to building on the work of existing investor-focused reporting initiatives.

Part of this effort includes further developing the Integrated Reporting Framework, for which the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB) assumed responsibility when the Value Reporting Foundation consolidated into the IFRS Foundation in August 2022.

The IASB and the ISSB will work together to determine how to build on and integrate the Integrated Reporting Framework into their standard-setting projects and requirements. During this transition, the Chairs of the IASB and ISSB actively encourage companies to continue adopting the Integrated Reporting Framework.

- **SASB Standards:** The SASB Standards are a source of guidance for applying IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. The SASB Standards help companies identify and disclose material information about sustainability-related risks and opportunities in the absence of specific IFRS Sustainability Disclosure Standards.

The SASB Standards identify the sustainability-related risks and opportunities most relevant to investor decision-making in 77 industries. The Standards were developed using a rigorous and transparent standard-setting process that included:

- evidence-based research;
- broad and balanced participation from companies, investors and subject-matter experts; and
- oversight and approval from the independent SASB Standards Board.

In August 2022, the ISSB assumed responsibility for the SASB Standards when the Value Reporting Foundation (VRF), the global non-profit that previously maintained these Standards, consolidated into the IFRS



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Foundation. The ISSB is committed to maintaining and enhancing the SASB Standards and encourages their continued use.

In December 2023, the ISSB published amendments to enhance the international applicability of the SASB Standards.

- **TCFD recommendations:** The Financial Stability Board has announced that the work of the TCFD has been completed, with the ISSB Standards marking the 'culmination of the work of the TCFD'.

Companies applying IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures will meet the TCFD recommendations as the recommendations are fully incorporated into the ISSB Standards.

The IFRS Foundation has [published a comparison](#) of the requirements in IFRS S2 and the TCFD recommendations.

The requirements in IFRS S2 are consistent with the four core recommendations and eleven recommended disclosures published by the TCFD.

As demonstrated in the comparison, companies that apply the ISSB Standards will meet the TCFD recommendations and so do not need to apply the TCFD recommendations in addition to the ISSB Standards.

There are additional requirements in IFRS S2. These include the requirements for companies to disclose industry-based metrics, to disclose information about their planned use of carbon credits to achieve their net emissions targets and to disclose additional information about their financed emissions.

The TCFD has been a trailblazer in raising the practice and quality of climate-related disclosures, with the ISSB building on this legacy.

The incorporation of the TCFD recommendations into the ISSB Standards provides yet further simplification of the so-called 'alphabet soup' of disclosure initiatives for companies and investors.

The Financial Stability Board has also asked the IFRS Foundation to take over the monitoring of the progress on companies' climate-related disclosures from the TCFD.

While companies can still use the TCFD recommendations, given the TCFD has now disbanded the list of supporters is no longer active.

## SUSTAINABLE DEVELOPMENT GOALS ("SDG")

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

The 17 SDGs are integrated, that is, they recognize that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.



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