



ESG Investing: How sustainability is redefining finance in India

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Representational Image

ESG investing is reshaping finance in India by putting sustainability at the heart of investment decisions. From stock markets to bond issuances and even small retail portfolios, investors are looking beyond returns to consider long-term social and environmental effects. It has moved from the periphery to the core of finance in India. The debate among the investors, regulators, and corporates is shifting from “whether ESG matters” to “how much ESG matters, how fast, and at what cost”.

Growth of ESG products & performance insights

The ESG investing market in India is projected to grow at a strong CAGR of 23.3% from USD 9 million in 2024 to USD 4,109.6 million by 2030. This lucrative 23% plus growth depicts an attractive opportunity for all the investors, particularly those preferring a long-term position. Currently, the Indian financial market offers a variety of ESG investments, including ESG Mutual Funds, ESG Indices, ESG-based Exchange Traded Funds, and ESG Bonds, which encompass Green Bonds, Social Bonds, and Sustainability-Linked Bonds. Additionally, a few Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) are integrating ESG objectives into their strategies, such as issuing bonds linked to sustainability or focusing on renewable or green assets. The government is pushing these investments vigorously, which increases prospects for growth.

Green Bonds: Merging Profitability with Intent

There is another growing trend among investors, which is Green Bonds, of which there is a substantial part of available ESG investment options.

Green Bonds: Combining profitability with a purpose

There is a growing inclination among investors in Green Bonds, which comprise a significant portion of available ESG investment options. These ESG investments generate funds that can support environmentally friendly projects, including water conservation initiatives, solar & wind power projects, and metro rail projects (sustainable transportation). By integrating ESG-backed assets into portfolios, investors can target a



Implications of developments on ESG investing

The recent developments show that ESG investing not only offers superior returns but may also provide stable returns, lower downside risk, and less volatility. Traditional finance focuses on the risk-adjusted returns that are based on financial metrics. However, investments in ESG are redefining this paradigm. For instance, climate risk is now considered an investment risk, which can influence valuations of companies in sectors such as infrastructure, energy, and automotive. Investors are asking: Will a firm's business model remain viable in a low-carbon economy? Will social mishaps hamper brand equity? Does poor governance reflect any hidden financial risks?

globally, institutional investors, including pension funds and sovereign wealth funds, are progressively accounting for ESG factors when analyzing the Indian investment market. Domestic investors are trying to mimic this trend by observing that the firms with best ESG practices may yield enhanced long-term and risk-adjusted returns by avoiding regulatory penalties and reputational damage.

Opportunities & challenges ahead

As India moves toward its net-zero goal for 2070, huge investment is likely to flow into electric mobility, green infrastructure, renewable energy, and sustainable agriculture. The flow will be crucial for India in meeting its sustainability-related targets. ESG investing is thus not only a moral or ethical choice but also a gateway to high-growth sectors of the future economy. Investors are gradually incorporating qualitative performance metrics available through various platforms into their investment decisions. Yet, a large group of investors is still skeptical about ESG investing. Greenwashing continues to be one of the primary threats that erodes investor confidence. Lack of comparability due to data constraints and unstandardized reporting styles adds fuel to this concern. Furthermore, for retail investors aiming for short-term gains, this will not be a viable option and is also limited by the relatively short history of ESG funds in India.

Closing thoughts

ESG investing in India has moved from being an idea that people just talk about to something they now actively practice. Now, the debate is not about whether ESG is important, but about how to make it work in everyday financial decisions. It ranges from balancing return expectations and responsibility for investors to ensuring transparent and



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