

Sustainability Outlook

October, 2012

Sustainability Reporting

Extended Producer Responsibility

Financing Sustainable Infrastructure

Green Leap needed to shape global leadership



Moving from operating defensively,
to capturing advantage

Look who's reading your Sustainability Report



Pawan Mehra,
Managing Director,
cKinetics

As India Inc. begins to adopt Sustainability reporting, investors are likely to be combing through it and select winners from the rest.

The number of corporates coming out with Sustainability reports in India is on the rise. In these reports businesses share about efforts undertaken by them to engage their stakeholders and to preserve the environment they operate in.

When analyzed, the Sustainability Reports reveal a linkage between the nature and quality of disclosure and the financial attractiveness of the business. This linkage is especially strong in certain sectors related to Services, Extractive industries and those related to Energy production. There is room to start making the argument that the Sustainability Reports should get far more attention than what they have received so far.

Uptake of Sustainability Reporting

While Public Sector Undertakings (PSUs) have historically led the trend on reporting their actions related to environmental, social and governance issues, the reporting has not been systematic; till recently. At present, the number of assured Sustainability reports from India's top 100 listed firms is still only a paltry 21.

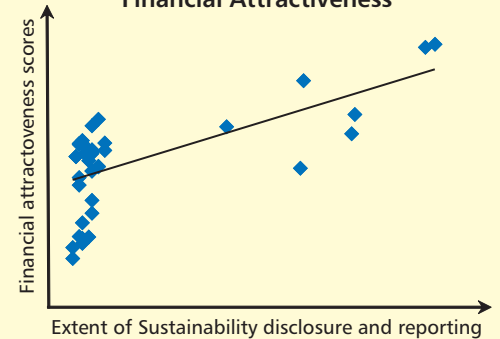
However, this number is only going to increase given the requirements from the regulator for listed companies as well as increasing requirements from stakeholders. Investors are only going to add to this increasing pressure to see more Sustainability related data. Many of these aspects are outlined in this article.

Linking financial attractiveness and Sustainability Reports

In a recent study, cKinetics analyzed the sustainability disclosure and investor attractiveness of leading listed companies. The focus within the listed companies has been on the 100 largest businesses in India: which are bellwethers for the rest of the industry.

Information from the Sustainability reports and annual reports was extracted and the quality of disclosure on 35 parameters was assessed. For the same companies, their financial attractiveness was also evaluated based on an analysis of their cash flow, stock price, dividend payout, debt-to-equity and other key metrics.

Sustainability Reporting Linked to Greater Financial Attractiveness



Each dot on the graph above represent a subset of companies amongst India's top 100. Data has been mapped based on its calculated financial attractiveness and its Sustainability disclosure.

The analysis revealed that greater the extent of disclosure and reporting, greater was the financial attractiveness.

Picking winners

The world's successful investors spot opportunities where others don't see one. Is there an investment opportunity to be made looking at the Sustainability Reports?

In the cKinetics analysis, three sectors in the top 100 companies, stood out as having the strongest linkage between disclosure and financial attractiveness:

- Service Sector companies including software companies and financial institutions amongst others
- Extractive industries including mining, oil and gas, mineral extraction, aluminum and steel companies
- Energy and Utility companies



Shradha Kapur,
Senior Associate,
cKinetics

“Sustainability Reports reveal a linkage between the nature and quality of disclosure and the financial attractiveness of the business”

On mapping India’s leading disclosers against the sectors above, a view emerges on companies that are benefitting more from disclosing their Sustainability related performance (see table). As a corollary, newer investment opportunities would arise by identifying companies in these sectors that are planning on implementing a Sustainability roadmap and then disclosing on them.

Table: India Inc.'s leading Disclosers over the last 2 years from the top 100

| Linkage between Sustainability Disclosure and Financial Attractiveness | | |
|--|---|---|
| | Medium | Strong |
| Non-PSU | ABB Limited GlaxoSmithKline Pharmaceuticals ITC Limited Larsen & Toubro Ltd. Mahindra & Mahindra Ltd. Maruti Suzuki India Limited Tata Motors Limited | Infosys Ltd. JSW Steel Ltd. Reliance Industries Limited Sesa Goa Ltd. Tata Consultancy Services Limited Tata Power Limited Tata Steel Limited UltraTech Cement Limited Wipro Ltd. |
| PSU | | Bharat Petroleum Corp. Ltd. GAIL (India) Limited Oil and Natural Gas Corp. Ltd. |

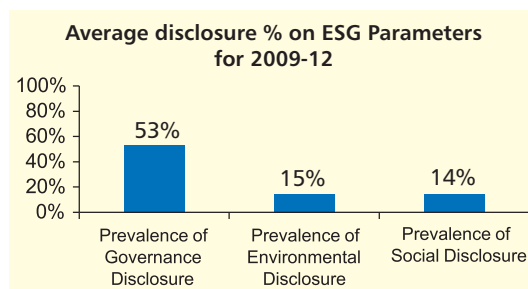
Areas to track and watch

In looking at the Sustainability reports, 2 key things stand out:

- a. Quality of disclosure, and the assurance that goes along
- b. Timing of disclosure

Quality of disclosure:

An analysis of the disclosure levels of the top 100 listed companies for the years 2009-12, reveals that while disclosure on governance parameters averaged at 53%, the average disclosure on Environmental and Social indicators stood at a dismal 15% and 14% respectively, reflecting that the information on these parameters, especially, is glaringly inadequate. This is an area to watch and track, especially because these can be quite material to a company’s performance.



Timing of disclosure:

The time lapse between the fiscal year end and the time when the companies come out with their Sustainability report has been decreasing. For the 3 years that cKinetics tracked the information, the time period has reduced from 332 days to 289 days. As more firms gear up for Sustainability reporting, this number is only going to reduce further.

Policy is going to accelerate Sustainability Reporting

Earlier this year, the Securities and Exchange Board of India (SEBI) mandated the 100 largest listed companies (by market capitalization) to provide a Business Responsibility (BR) report which would form part of a company’s annual reports/filings. SEBI has also provided an Annual Business Responsibility Report (ABRR) framework that firms can follow. One can expect that over time more companies will come under this ambit.

For the Public Sector Undertakings (PSUs), the Department of Public Enterprises (DPE) is has made focused efforts to promote sustainable development as also create more disclosure through the mandatory Corporate Social Responsibility Guidelines and Guidelines on Sustainable Development. Under the guidelines for sustainable development, the Memorandum of Understanding (MoU) signed between the DPE and the CPSE factors a 5% mandatory weightage to sustainable development and companies need to identify the projects pertaining to E&S sustainability and provide an annual update.

In addition, the Institute of Chartered Accountants of India (ICAI) has undertaken significant work to define the framework for Sustainability Reporting in India, which will assuage challenges of: (a) assurances; (b) defining a methodology for sustainability accounting; and (c) catalyze the transition toward integrated reporting.

Stakeholder initiatives that will influence the landscape

Other stakeholder driven initiatives including those driven by investors are also starting to find increasing relevance in India, owing to: (i) a targeted attempt by investors to use Sustainability information in managing their risk; and (ii) an increasing realization by businesses, especially multinational businesses on the benefits of reporting.

The Global Reporting Initiative (GRI) set up 1 of its 5 global focal points in India in 2010 with an aim to promote and support sustainability reporting by businesses in India. In addition, the focal point engages in capacity building initiatives to develop experts in sustainability reporting in the country. In 2009, a total of 56 companies across 12 industrial sectors produced a sustainability report out of which 35 companies referred to the GRI Guidelines. GRI is finding increasing acceptance in India; this is evident from the fact that India is identified as the country with the most comprehensive use of GRI's Guidelines, in terms of level of disclosure and external assurance - 78% of GRI reports from India boast of maximum standard disclosure and external assurances, as compared to a world average of 24%.

The Carbon Disclosure Project, which represents 551 institutional investors having over USD71 trillion assets under management, collects data on greenhouse gas emissions, water management and climate change strategies for over 3000 organizations. In partnership with Confederation of Indian Industry – ITC Centre of Excellence for Sustainable Development (CII CESD) and World Wildlife Federation (WWF) India, CDP India has been reaching out to 200 companies in India and has seen an 55% increase in reporting since the first effort in 2007.

This trend of having stakeholders actively engage to get companies to proactively report is only going to increase. Many of these stakeholders would be from the financial community that use a lot of this information to pick winners!

cKinetics is a specialized Sustainability advisory firm working with investors and businesses. Along with GIZ (German Society for International Cooperation) and IIPC (Impact Investing Policy Collaborative), it is convening a working group that will be examining issues around business Sustainability disclosure and investment in selected sectors. To learn more about the data behind this article or to engage with the working group, please contact the authors.



Getty Photostream