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ESG Ratings as Catalysts for Reshaping Corporate Identity? An Empirical Evidence of Indian Corporates

Delnaz Variava[*], Kachariya Sujal Hiteshbhai[**] and Mansuri Mohammed Umair Mo Asif[***]
S. R. Luthra Institute of Management
Contituent College of Sarvajanik University
Surat, Gujarat, India

Abstract: The United Nations Sustainable Development Goals (SDG) serve as a conceptual backbone for corporate sustainability giving emergence to the environmental, social and governance (ESG) mechanism. This leads to growing integration of ESG considerations into Indian financial markets, particularly following the Securities and Exchange Board of India (SEBI)'s Business Responsibility and Sustainability Reporting (BRSR) framework. This has brought ESG factors into sharper focus of investors, regulators and corporations. However, do these rating bare an effect on the firm's financial and valuation metrices and can lead to reshaping corporate identities? This study uses a sample of 279 listed entities on the National Stock Exchange and measures the impact of ESG ratings on the firm's financial performance during the financial year 2024-25, post the announcement of ESG ratings. The financial performance is measured using the valuation metric of Tobin's Q and accounting metric of return on assets. The findings reveal significant and positive impact of ESG ratings on the firm's financial performance. The results suggest that ESG ratings enhances corporate reputation, risk management efficiency and long term value creation. However, disintegrated analysis reveals that social scores do not bare a significant impact on financial performance as compared to environmental and governance scores indicating uneven value relevance of ESG pillars. The study adds to the existing ESG literature by providing empirical evidence on significance of ESG mechanism in reshaping corporate identities.

Keywords: ESG, Corporate Identity, Financial Performance, Valuation, Indian Corporates

[*] Corresponding author. Email: variava@srlimba.ac.in; [**] and [***]Student.