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Is Sustainable Business Profitable: A Study of Indian Companies Listed in Dow Jones Sustainability Indices

Vineeta Mishra¹ and Ajit Mittal²

¹Ph.D Scholar, Amity University, Noida, Uttar Pradesh. E-mail: vineetamishra85@yahoo.com

²Professor, Amity University, Noida, Uttar Pradesh

ABSTRACT

Investors throughout the world are recognizing the importance of sustainable business and this is paving way for specialized investment approaches and products in the arena of Sustainable, Responsible and Impact Investing (SRI). But the question that remains in the mind of investors is whether sustainable businesses are as profitable as conventional businesses. Dow Jones sustainability indices (DJSI) are a family of indices which evaluate the sustainability performance of companies throughout the world. As of now only nine Indian companies are listed in DJSI. This paper tries to compare the financial performance and sustainability performance of the nine companies that are indexed with DJSI. And it also tries to explore performance v/s sustainability argument.

This study is exploratory in nature. The nature of data is secondary. The financial performance of DJSI indexed Indian companies has been studied for 5 financial years. Key ratios have been calculated and compared on a YOY basis. Data for the same has been extracted from their annual reports. To study the sustainability practices the websites of these companies were explored along with sustainability reports. Articles published in leading newspapers were also studied.

This study will find out the industry dynamics, financial dynamics, international influence and leadership vision of the listed companies which is behind their sustainability performance.

Keywords: Sustainability, socially responsible investment, impact investing, performance, ethical investment.

1. INTRODUCTION

This study analyses the sustainability initiatives of those Indian Companies which have been recognized on a global platform and are indexed in the prestigious Dow Jones Sustainability Indices. The information collected is as disclosed on their websites, including the annual reports, sustainability reports, policies,

and various codes. The objectives of this study are to investigate various types of information related to sustainability based on the ESG Factors (Environmental, Social and Governance factors) and business operations companies were currently being disclosed and to map the type of information to the industry type and sector. SRI pertains to investment strategies that screen companies on the basis of some measure of social good, along with traditional financial metrics. This implies that financial returns cannot be ignored at any point of time while screening the companies for inclusion in a SRI portfolio. Many SRI funds across globe focus more on Environmental, Social and Governance (ESG) issues and less on economic ones. SRI as practically applied by most asset managers today is a sub-set of sustainable investing, since it tends to focus primarily on the Social (including governance) and Environmental elements only, while sustainable investing includes Economic factors in addition to the Social and Environmental. This pillar of sustainability is also known as Triple Bottom Line.

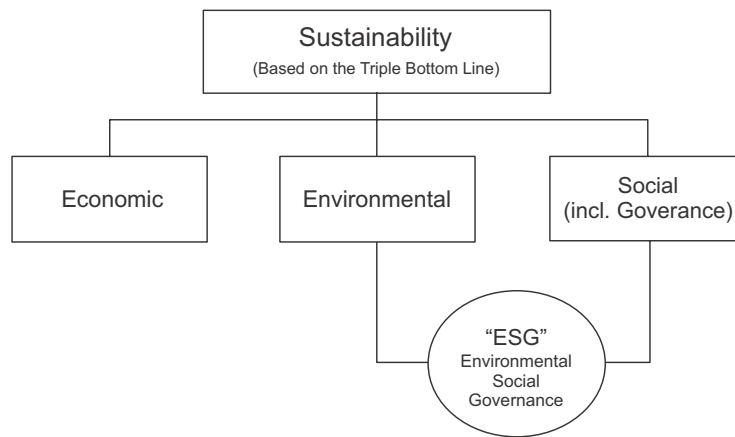


Figure 1: Source Target Advisors

This study also tries to find out the financial performance of these companies in order to discuss whether Sustainable Businesses are profitable as well. This attempt will try to do a status audit of these companies to check if India has enough SRI Investment arenas.

2. LITERATURE REVIEW

Literature on SRI can be classified into three main dimensions. One covers the basics of SRI and the status report of SRI across various countries. It also includes meta-studies done in this area. Viviers and Eccles (2011) 35 years of academic research into investment practices that in some way integrate a consideration of environmental, social and corporate governance issues. They have also found that both qualitative and quantitative research has been done and three SRI strategies have dominated academic discussions over the past 35 years, namely negative screening, positive screening and shareholder activism.

The second dimension is performance of SRI. Wallis and Klein (2015) have found in their meta-study that most research studies find that socially responsible (SR) investments perform equal to conventional investments, but these findings are challenged by contradictory results from other studies. The Social Investment Forum Foundation (2010) reports a total of \$3.07 trillion in SR investments in the USA. Its European counterpart, the Eurosif (2010), reports a total of €5 trillion in such investments. They split the figure into €1.2 trillion invested in core and the remaining €3.8 trillion into broad SR investments. The latter includes funds performing simple screening methods, while core investments cover funds using

more complex screening methods. In their European study, they include 19 countries: Austria, Belgium, Cyprus, Denmark, Estonia, Finland, France, Germany, Greece, Italy, Latvia, Lithuania, The Netherlands, Norway, Poland, Spain, Sweden, Switzerland, and the UK. In addition, Renneboog et al. (2008) provide an overview of the increases in SR investments for the US, European, Canadian, and Australian markets over time. This serves as proof of the interest investors have in combining financial and ethical motives.

This study primarily focuses on the performance dimension.

Hamilton et al. (1993) propose three alternative hypotheses on the performance of SRI. First, they argue that the SRI should not have any significant impact on fund performance because social responsibility is not priced by the market. Second, SRI would underperform the conventional funds since it restricts an investor's choice set. According to traditional portfolio theory (e.g., Markowitz, 1959), an unconstrained optimization is always better than a constrained optimization. Third, SRI should outperform conventional funds because markets do not correctly price social responsibility.

Dowell, Hart, Yeung (2000)* show that between 1994 and 1997, U.S. multinational corporations with high global environmental standards tended to have higher price/book ratios than companies adopting local environmental standards, even after adjusting for factors such as industry membership, R&D intensity, and advertising intensity.

Tripathi and Bhandari (2014) have done a study on Indian Markets. They suggest that investors may start investing in socially responsible companies to reap higher returns at lower risk. We also expect that for SRI/green investment promotion, more and more socially responsible mutual funds or green mutual funds would be launched in India in near future.

Table 1
Summary of some studies specially relating to performance of SRI investment opportunities

<i>S.No</i>	<i>Authors</i>	<i>Year</i>	<i>Market Studied</i>	<i>Period Studied</i>	<i>Outcome</i>
1.	Statman	2000	US	1990-1998	No Difference
2.	Abramson and Chung	2000	US	1990-2000	“Good Stocks” outperform
3.	Foerster, Asmundson	2001	Canada	1995 - 1999	No Difference
4.	SRI World Group	2002	US	1999-2001	No Difference
5.	Derwall, Guenster, Bauer, Koedijk	2003	US	1997-2002	“Good Stocks” outperform
6.	Gompers, Ishii and Metrick	2003	US	1990-1999	“Good Stocks” outperform
7.	Bauer, Koedijk, Otten	2004	Germany	1990-2001	No Difference
8.	Boutin-Dufresne, Savaria	2004	Canada	1995-1999	No Difference
9.	Bello	2005	US	1994-2001	No Difference
10.	Derwall, Guenster, Bauer, Koedijk	2005	US	1995-2003	“Good Stocks” outperform
11.	Statman	2005	US	1990-2004	No Difference

<i>S.No</i>	<i>Authors</i>	<i>Year</i>	<i>Market Studied</i>	<i>Period Studied</i>	<i>Outcome</i>
12.	Hong, Kasperczyk	2009	US	1962-2003	Bad Stocks' outperform
13.	Kempf, Osthoff	2007	US	1991-2004	'Good' Stocks Outperform
14.	Translating ESG into Sustainable Business Value	2010	Developed Markets	N/A	"Good Stocks" outperform
15.	James E. Mallett and Stuart Michelson"	2010	US	1998-2008	No real difference between Green and SRI funds and SRI funds and Index funds
16.	Humphrey, Lee and Shen	2011	UK	2002-2008	No Difference
17.	Maria Céu Cortez, Florinda Silva, Nelson Areal	2012	US and Europe	1996-2008	Socially responsible funds show performance estimates comparable with those of conventional funds.
18.	Linda U	2014	US	1999-2009	Risk adjusted returns of Sri Funds is higher. ESG Screening is helpful
19.	Sebastian Rathner	2013 (Working Paper)	Austria	1992-2012	No Difference

3. METHODOLOGY

In the present study, specific sustainability initiatives taken up by the companies under study as disclosed on their websites and in their annual reports, sustainability reports, policies, codes, and so on were considered for analysis.

The factors were classified as followed:

1. **Environmental Factors:** Any voluntary action taken by the company to ensure reduced impact of their operations on the environment or the society beyond legal compliance (Factors related to climate change, carbon footprint, nuclear energy, use of renewable energy and environmental conservation etc)
2. **Social Factors:** Factors related to diversity in work force and inclusion, conservation of human rights, consumer protection, Impact investing for benefit of society in general, animal welfare, contribution at the time of disaster etc.
3. **Corporate Governance related factors:** Factors related to management structure, disclosures in annual reports, employee relations, executive compensation etc
4. **Financial Performance:** Last 5 year financial performance of the 9 companies was chosen.

4. SAMPLE SELECTION

Dow Jones Sustainability Indices (DJSI) are well known indices across the globe. It is developed in association with ROBECCOSAM. All the Indian companies that are indexed in Dow Jones Sustainability Indices for year 2015 have been chosen. The details are as follows:

Table 2
Indian Companies Indexed with DJSI

<i>Name of the company</i>	<i>Industry Group</i>	<i>DJSI World</i>	<i>DJSI Emerging Markets</i>
Larsen & Toubro Ltd	Capital Goods	×	√
Mahindra & Mahindra Ltd	Automobiles & Components	×	√
Mahindra & Mahindra Financial Services Ltd	Diversified Financials	×	√
Tata Consultancy Services Ltd	Software & Services	√	√
Tata Motors Ltd	Automobiles & Components	×	√
Tata Steel Ltd	Materials	×	√
Tech Mahindra Ltd	Software & Services	√	√
Wipro Ltd	Software & Services	√	√
Yes Bank Ltd	Banks	×	√

Tata Consultancy Services Ltd, Tech Mahindra Ltd. and Wipro Ltd. are indexed with both DJSI World Index as well as DJSI Emerging Markets Index. Whereas other four companies i.e. Larsen & Toubro Ltd, Mahindra & Mahindra Ltd, Tata Motors Ltd. and Tata Steel Ltd are indexed only with DJSI Emerging Index.

5. DATA COLLECTION AND ANALYSIS

For the present report, data on the sustainability initiatives undertaken by these companies was collected from their respective Websites and/or from the information provided in their annual reports or CSR/sustainability reports. The period of data collection was July to September, 2016. The latest reports provided on their Websites were referred to for both the sectors in order to collect information on their sustainability initiatives and profitability.

5.1. Larsen and Toubro Ltd

L&T is a member of Dow Jones Sustainability Indices. The company's green products and services portfolio steadily increased to INR 107.67 billion in FY 2014-15. Sustainability Roadmap of the company focuses on Energy Conservation, Greenhouse Gas (GHG) Mitigation, Water Conservation, Material Management, Inculcating a safety culture, Continuing Social Interventions.

L&T is India's largest EPC solution provider in the field of solar plant construction. The company has saved 236,796 GJ of energy at its establishments over last eight years - avoiding over 53,936 tons of CO₂ emissions. More than 11% renewable energy is used at L&T units. It has built more than 43.7 million sq. ft. of certified green building space for customers. All major 28 campuses of L&T across India have adopted zero wastewater discharge approach. Tree plantation on large scale has been undertaken in the Himalayan region. 200 check dams have been constructed by L&T Public Charitable Trust (LTPCT) that helps tribal farmers to take more than one crop along with vegetable cultivation.

5.2. Mahindra and Mahindra Ltd

M&M Ltd has featured in the Dow Jones Sustainability Index 2015 and Emerging Markets Index. The Company has built a green revenue portfolio of over US\$ 393 million and has proactively been addressing issues pertaining to Sustainability. The entire company is a water positive group. Major projects undertaken to promote sustainability includes 'Araku Project' which is a Tree plantation project to increase green cover and improve livelihood of farmers. In Financial Year 2016, the project planted 1.23 million trees in totality. Second project is 'MPOWERED' relating to Rural Electrification through Solar Power. It is expected that Renewable power initiative will mitigate 13,400 Tons of Carbon Dioxide. This will lead to Reduction in specific carbon footprint. The company is also encouraging green building initiatives, Rain water harvesting, recycling and water conservation, Reduce, reuse and recycle of waste and eco-friendly waste disposal.

5.3. Mahindra and Mahindra Financial Services

The company has been listed on the Dow Jones Sustainability Index (DJSI) Emerging Market Trends for the third consecutive year and RobecoSAM Sustainability Yearbook 2015. For the financial year 2016-2017 the company targets to Reduce specific electricity consumption by 5% and specific GHG emissions by 5%. The company has 164 kW of solar capacity installed across our 63 office locations. Project Hariyali has been their endeavor towards nurturing biodiversity. The company has empanelled Central Pollution Control Board (CPCB) and authorized third party e-waste handlers for disposal of e-waste from their locations across India. In FY 2014-15, they responsibly disposed 1,070.5 kg of e-waste which included desktops, laptop hardware, etc.

The company has been able to reduce its energy, water and paper consumption in absolute terms.

5.4. Tata Consultancy Services

The company has featured in Dow Jones Sustainability World Index. For TCS, Carbon footprint and energy management are among the areas of strong focus. The company continues to work towards the target of specific carbon footprint reduction in order to decouple business growth from the carbon and energy footprint. Green buildings, green IT, operational energy efficiency and renewable energy are the pillars for achieving this target. TCS helps design and deploy an integrated energy management platform that covers all type of facilities and energy sources across the enterprise operations. TCS help select, design and implement an integrated management platform on proprietary or COTS or bespoke software to track, and monetize enterprise performance across energy, water, waste, and carbon dimensions. It also supports building of Green infrastructure. The company aims to reduce the specific carbon footprint by 50%, specific Electricity consumption by 42% by 2020.

5.5. Tata Motors Ltd

Company's focus areas are promotion of renewable energy, construction of soil and water conservation structures and tree plantation to increase green cover. Tata Motors has given 8500 solar study lamps to school going children in tribal blocks of Thane and Pune Districts. The company undertook maintenance and de-silting of rainwater harvesting structure in Vanaria village. Since 1970s, Tata Power has been involved in the conservation of the habitat that surrounds its hydro power facilities. This includes large-scale forestation through which more than 13million saplings have been planted. This initiative has helped in increasing the water retention capability, rejuvenating the springs, and conserving the local flora and fauna.

5.6. Tata Steel Ltd

Tata Steel has been featured in DJSI Sustainability Year Book 2015. It is the only manufacturing organization from India to have found a place in it.

Sustainability Roadmap of the company focuses on the areas of Energy Conservation, Greenhouse Gas (GHG) Mitigation, and Water Conservation. , Material Management, Biodiversity Management and benefit to the society.

Tata steel's long term objectives include maintaining leadership in profitability, maintaining leadership position in chosen segments, strive for raw material self-sufficiency and extract value from waste, be the Indian steel industry benchmark in environmental performances, zero harm to environment and society and deliver impact based CSR.

5.7. Tech Mahindra Limited

Tech Mahindra is listed in DJSI - ROBECOSAM Global Sustainability Year Book – 2016. Tech Mahindra Ltd receives Industry Mover, Bronze Class Sustainability Award 2016. In order to promote sustainability Tech Mahindra has under taken many projects to that utilize renewable energy. It includes Installation of 2 solar plants at Pune & Chennai campuses of the company. The initiative has led to estimated annual carbon emission savings of 551.38 MtCO_{2e}. At the same time the company has made strategic investments for solar power projects at Chennai of 735 KWp & Hyderabad of 1219 KWp A windmill that has been installed at Pune campus has led to estimated annual carbon emission savings of 57.47 MtCO_{2e}. Solar Water Heaters installed at guest house at Pune and Hyderabad campus helped in saving of 53560 KWh & 42500 KWh of power respectively. 95% of the water that is used is recycled. The per capital water consumption has also come down by 5%. The Company is working towards reducing GHG emissions from its activities.

SMART Solutions are implemented in the areas of Parking Management, Garbage Management etc. This has been implemented at Mahindra World City Jaipur. Almost 50% street-lights are being controlled through command enter with energy savings between 20 to 30% & carbon emission savings 25 to 30% can be achieved.

Looking at the societal contributions, the Company has been investing 2% of its average Net Profit in philanthropic work. CSR programs in the fields of Education and employability through Tech Mahindra Foundation has positively impacted a large segment of the society.

5.8. Wipro Limited

Wipro has been selected as DJSI World member for the 5th time in a row. The company is also a member of Morgan Stanley Capital International Global Sustainability index series.

At Wipro, renewable energy contributes to 20% of total electricity consumptions for India offices. The company has saved 132 MN KL freshwater in the 2015-2016. 90% of total waste from India operations recycled or reused. It has been designated as “CSR Thought Leader by Verego. The company launched a program on education of children with disabilities, supporting needs of 1350 underprivileged children through 5 projects in Bangalore, Pune, Jaipur and Hyderabad. The majority of the Board comprises of External Directions (7 out of 10).

Wipro has partnered with Cstep in researching and publishing a paper on the roadmap for the National Solar Mission (NSM).

5.9. Yes Bank Ltd

Yes Bank is India's fifth largest Private Sector Bank founded by Mr. Rana Kapur and Late Mr. Ashok Kapur in 2004. Yes Bank is the only Indian Bank listed in Dow Jones Sustainability indices in the emerging markets segment.

Responsible Banking has been a key differentiator of Yes Bank. It is one of its six strategic pillars, along with Growth, Trust, Human Capital and Technology. Their mission is to use innovative business solutions to create stakeholder value and to ensure that sustainability principles are integrated with the core business strategy and processes. The bank's focus lies in building innovative models to engage with external and internal stakeholders and nurturing the relationships to create innovative, scalable and financially viable approaches towards national development

6. FINANCIAL PERFORMANCE

Financial performance has been studied by understanding key ratios. The ratios that have been taken for the analysis are:

1. **Earnings per share:** It is the indicator of a company's profitability. It is considered as one of the most important variables in determining a stock's value

$$\text{EPS} = \text{net income} / \text{average outstanding common shares}$$

It can also be calculated as,

$$\text{EPS} = (\text{net income} - \text{dividends on preferred stock}) / \text{average outstanding common shares}$$

2. **Dividend per share:** A company's profits, and the amount it pays out in dividends, drives shareholder value. Dividend discounting model is also used to determine value of a firm

$$\text{DPS} = \frac{\text{D} - \text{SD}}{\text{S}}$$

D – Sum of dividends over a period (usually 1 year)

SD – Special, one time dividends

S – Shares outstanding for the period

3. **Return on Equity:** It measures a company's performance. ROE is useful for comparing the profitability of a company to that of other firms in the same industry.

$$\text{ROE} = \text{Net Income} / \text{Shareholders' Equity}$$

4. **P/E Ratio:** It is used to determine if a company's stock price is over or undervalued. Companies with a high P/E ratio are typically growth stocks.

$$\text{P/E Ratio} = \text{Market Value per Share} / \text{Earnings per Share (EPS)}$$

5. **P/B ratio:** The price-to-book ratio (P/B Ratio) is a ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share. The P/B ratio reflects the value that market participants attach to a company's equity relative to its book value of equity.

$$\text{P/B Ratio} = \frac{\text{Stock Price}}{\text{Total Assets} - \text{Intangible Assets and Liabilities}}$$

6. **EV/EBITDA:** This is a measure of company valuation. It is ideal for comparing companies in the same industry. The value of the metric is calculated by dividing a company's enterprise value (EV) by its earnings before interest, taxes, depreciation and amortization (EBITDA). The numerator of the formula, the EV, is calculated as the company's total market capitalization and preferred shares and debt, minus total cash.

Table 3
Financial Ratios (Source: Compiled from Yahoo Finance and NDTV Profit)

<i>Parameters</i>	<i>MAR'16</i>	<i>MAR'15</i>	<i>MAR'14</i>	<i>MAR'13</i>	<i>MAR'12</i>
<i>Yes Bank Ltd</i>					
EPS(Rs)	60.39	48.01	44.86	36.27	27.68
DPS(Rs)	10	9	8	6	4
ROE(%)	19.94	21.33	25.02	24.81	23.07
PER(x)	14.32	17.01	9.22	11.82	13.27
PBR (x)	2.64	2.92	2.09	2.65	2.77
EV / EBITDA(x)	15.81	18.57	13.48	16.95	17.61
<i>Wipro Ltd</i>					
EPS(Rs)	32.78	33.19	29.96	22.94	19.06
DPS(Rs)	6	12	8	7	6
ROE(%)	21.52	25.66	27.62	23.33	20.57
PER(x)	17.18	18.92	18.11	19.06	23.04
PBR (x)	3.42	4.49	4.56	4.45	4.45
EV / EBITDA(x)	11.28	12.43	11.93	12.83	14.71
<i>Tata Steel Ltd</i>					
EPS(Rs)	50.46	66.3	66.02	52.13	68.95

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<i>Parameters</i>	<i>MAR'16</i>	<i>MAR'15</i>	<i>MAR'14</i>	<i>MAR'13</i>	<i>MAR'12</i>
DPS(Rs)	8	8	10	8	12
ROE(%)	7.17	10.11	11.05	9.46	13.56
PER(x)	6.33	4.78	5.97	5.99	6.82
PBR (x)	0.44	0.46	0.63	0.55	0.88
EV / EBITDA(x)	5.37	5.52	4.79	4.63	5.47

Larsen and Toubro Ltd

EPS(Rs)	57.02	54.39	59.26	79.8	72.77
DPS(Rs)	18.25	16.25	14.25	18.5	16.5
ROE(%)	13.75	14.44	17.73	18.38	19.29
PER(x)	21.33	31.6	21.47	11.4	11.97
PBR (x)	2.8	4.35	3.55	2.93	3.23
EV / EBITDA(x)	14.29	19.17	14.7	11.09	11.42

Mabindra and Mabindra Financial Services Ltd

EPS(Rs)	11.91	14.74	15.74	15.68	60.39
DPS(Rs)	4	4	3.8	3.6	14
ROE(%)	11.48	15.49	18.62	23.89	22.83
PER(x)	20.36	17.21	16	12.39	2.21
PBR (x)	2.26	2.53	2.79	2.46	2.33
EV / EBITDA(x)	11.44	10.57	10.56	10.19	9.97

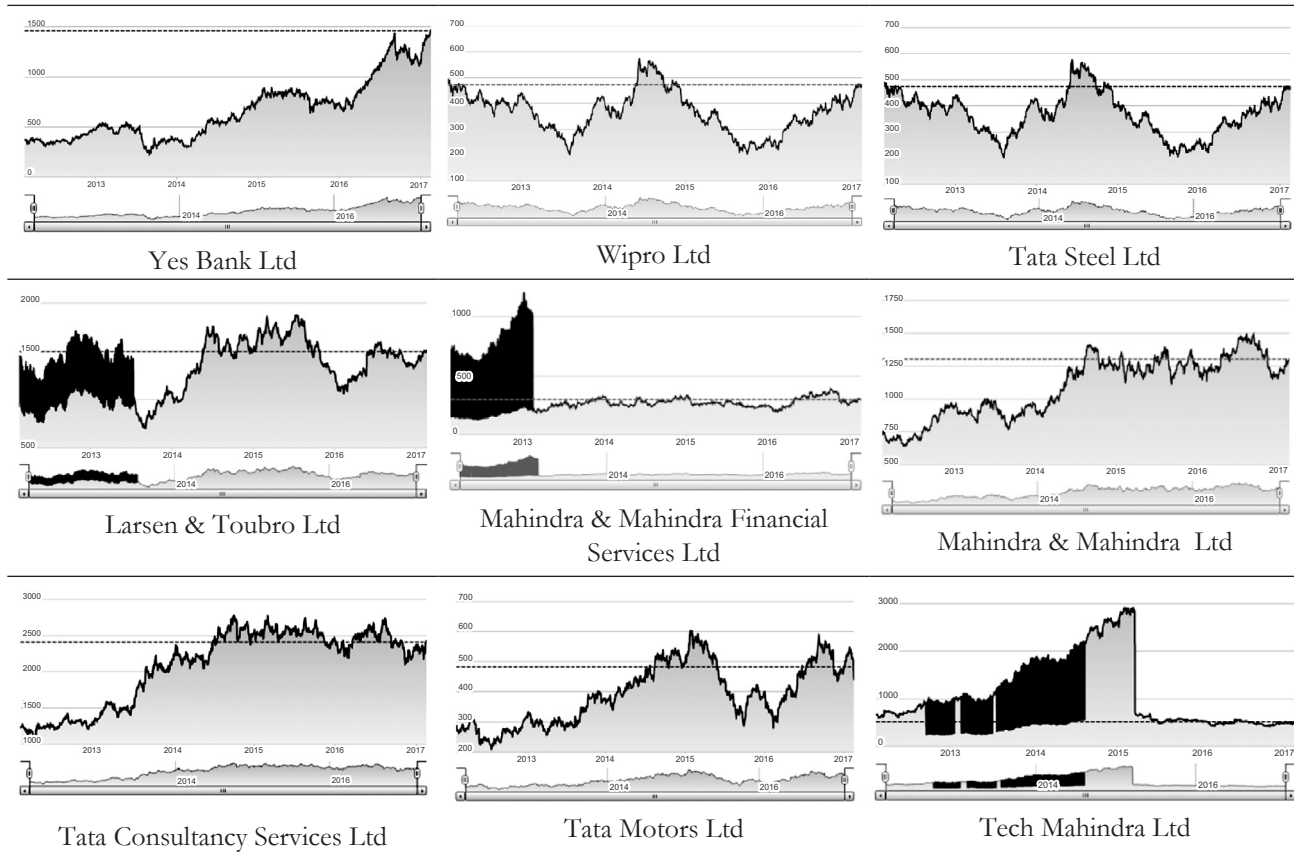
Mabindra and Mabindra Ltd

EPS(Rs)	53.45	56.16	63.67	56.8	48.87
DPS(Rs)	12	12	14	13	12.5

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<i>Parameters</i>	<i>MAR'16</i>	<i>MAR'15</i>	<i>MAR'14</i>	<i>MAR'13</i>	<i>MAR'12</i>
ROE(%)	15.57	18.56	24.12	25.3	25.88
PER(x)	22.63	21.14	15.4	15.16	14.26
PBR (x)	3.33	3.67	3.48	3.5	3.43
EV / EBITDA(x)	13.33	14.31	10.84	9.99	10.25
<i>Tata Consultancy Services Ltd</i>					
EPS(Rs)	116.13	98.32	94.18	65.23	55.97
DPS(Rs)	43.5	79	32	22	25
ROE(%)	43.89	43.05	48.29	44.69	49.62
PER(x)	21.67	25.91	22.6	24.1	20.87
PBR (x)	8.42	10.98	9.46	9.48	9.23
EV / EBITDA(x)	16	18.93	16.41	18.37	16.03
<i>Tata Motors Ltd</i>					
EPS(Rs)	0.69	-14.72	1.04	0.95	3.91
DPS(Rs)	0.2	0	2	2	4
ROE(%)	1.26	-27.88	1.75	1.57	6.32
PER(x)	560.02	0	379.23	284.65	70.43
PBR (x)	5.87	11.93	6.69	4.5	4.52
EV / EBITDA(x)	32.96	306.24	48.69	26.93	21.37
<i>Tech Mahindra Ltd</i>					
EPS(Rs)	33.27	23.48	115.01	50.94	36.13
DPS(Rs)	12	6	20	5	4
ROE(%)	26.91	23.49	43.11	17.43	13.6
PER(x)	14.29	26.81	3.9	5.2	4.98
PBR (x)	3.52	5.58	5.01	3.32	2.7
EV / EBITDA(x)	9.52	17.34	10.85	13.57	11.31

Table 4
Stock Market Performance: Source NSE and NDTV Profit



7. DISCUSSION

Yes Bank, TCS and, M&M and Wipro have shown a positive growth over a period of 5 years in the financial results. The stock prices also reflect the same. Though the Return on equity of Yes Bank has decreased which is primarily due to financing a lot of projects as the bank is a relatively new player and infusing good capital. Tata Motors has not done well and suffered losses though some recovery was done in FY2016. Tech Mahindra and Tata Steel have been volatile as far as earnings are concerned. Earnings of Mahindra & Mahindra Financial Services Ltd have declined steadily.

Yes bank has been successful in projecting itself as a Responsible bank. Mahindra Group through Mahindra Rise Programme has been able to position as a serious CSR player. This might help the business in the long run as the government of India is bringing in strong rules for CSR reporting.

With this we can see that the impact of sustainability measures is not much on profitability. The top sustainable companies TCS, Wipro and Tech Mahindra which are a part of DJSI world are all Software & Services companies. This shows that IT/ITES sector has done well.

All in all the sustainability initiatives taken by these companies will bring India to a new level and project it as a destination of SRI investment in the coming years. So we can say that though the business of business is business but with good governance.

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