

# Scramble for ERP licence as doubts linger on mkt size

About a dozen players dive into the fray

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**N**early a dozen entities have obtained or are in the process of obtaining regulatory licences for environmental, social, and governance (ESG) rating providers (ERPs), even as revenue streams appear limited due to the market remaining in its nascent stage.

So far, the Securities and Exchange Board of India (Sebi) has granted ERP registration to units owned by credit rating agencies ICRA, CRISIL, and CareEdge. Besides, SES ESG Research, an arm of the voting advisory firm Stakeholders Empowerment Services (SES), has also obtained a certificate of registration. Proxy advisory firm IiAS' ESG scoring subsidiary is also in the process of seeking registration.

Meanwhile, global majors MSCI ESG Ratings and London Stock Exchange Group are awaiting certification from the market regulator Sebi.

Last year, Sebi directed entities providing ESG scoring to mandatorily register with it to bring transparency and standards. Industry players say ERPs can follow two models — user pays or issuer pays. A user is a mutual fund, insurer, bank, or foreign portfolio investor, while an issuer is a listed company.

While ESG investing has taken off in a big way in the developed world, the Indian markets are yet to witness a similar trend. "After the initial euphoria, there may not be scope for too many

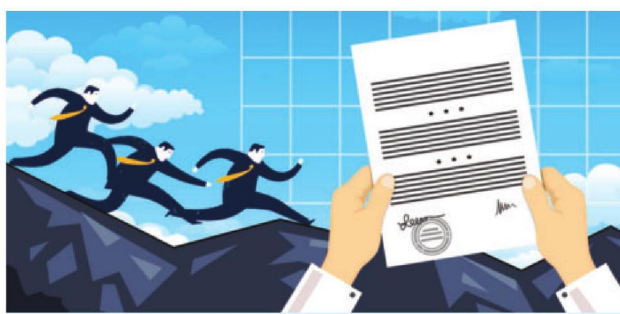


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## KEY PARAMETERS

- Sebi mandates registration of ESG rating providers (ERPs) to bring transparency and standards
- Global and domestic entities have filed applications for licence and about five firms have received the approval
- Listed companies not mandated to take ESG rating but bigger firms inclined towards sustainability metrics
- There were no standards or disclosure of methodology for ESG scoring before the ERP norms
- ERPs see the market developing with wider reporting on sustainability
- Industry players say ERPs can follow two models — user pays or issuer pays
- Scoring to be based on India-specific standards

players given that there are not too many use cases and subscribers," said J N Gupta, managing director, SES.

Listed companies in India are not required to obtain an ESG rating. Meanwhile, a fund house can opt to subscribe to the service of an ERP if its mandate is to invest in companies that score high on ESG parameters.

While there is not much demand for ESG scoring at the moment in India,

the rating providers say that they are working on developing the same.

Also, as more companies shift to so-called Business Responsibility and Sustainability Reporting, the demand for their services will gather steam.

The industry players believe that with better metrics available, companies will be able to attract better capital. "While there may be very few ESG funds in India at present, the demand

for ESG ratings is going to get a fillip from global funds, including private equity firms, as sustainability is an important pillar for them. Many of these firms are also insisting on a specifically designated sustainability officer at the CXO level," said L Shivakumar, executive vice-president — business development & chief business officer, ICRA.

For the sustainability of business, the industry now feels that ESG scoring or additional reporting beyond just the financials is a fundamentally important metric. Many believe that there needs to be a stakeholder and investor push for companies to seek these scores.

According to the mandate by Sebi, these ratings would be India-specific and based on the standards set by the regulations here.

The rating providers said that they have seen rising interest in ESG scoring from unlisted companies. However, under the current norms, ERPs are not allowed to rate unlisted companies.

"Sebi has mandated value-chain disclosures starting next year. That means 75 per cent of the upstream and downstream players. If value-chain partners are themselves not reporting these ESG parameters, then it would become very difficult for the listed companies to do the ESG reporting based on the value-chain partners. If Sebi allows this, then it would be beneficial so that along with the corporates, the suppliers are also compliant," said Rohit Inamdar, chief executive officer, CareEdge ESG, which has opted for an issuer-pay model.

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