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# STEWARDSHIP REPORT

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2024-25



JUNE 19, 2025

SBI FUNDS MANAGEMENT LIMITED

## Introduction

Welcome to SBIFML's Stewardship Report 2024-25, where we delve into the vital world of responsible investment and the crucial role stewardship plays within this framework. In an era of growing awareness and concern about environmental, social, and governance (ESG) factors, responsible investment has emerged as a powerful means of aligning financial goals with sustainable practices. Stewardship, as an integral component of responsible investment, provides investors with the opportunity to exercise active ownership, engage with companies, and leverage their voting rights to drive positive change.

The concept of responsible investment goes beyond the traditional focus on financial returns; it recognizes that businesses have broader responsibilities to society and the environment. Responsible investors seek to integrate ESG considerations into their investment decisions, aiming to generate both financial and societal value. By allocating capital to companies that demonstrate sound ESG practices, investors can encourage sustainable business models and contribute to a more inclusive and sustainable future.

At the heart of responsible investment lies the principle of stewardship. Stewardship entails the active and engaged management of investments, where investors adopt a long-term perspective and assume a fiduciary duty to protect and enhance the value of their assets. Stewards go beyond passive ownership; they actively monitor and influence the companies in which they invest, fostering accountability, transparency, and responsible practices.

Engagement and voting are two pivotal tools of active ownership. Engagement involves direct dialogue and collaboration between investors and companies to address ESG concerns, influence strategic decisions, and promote positive change. By engaging with company management, investors can encourage the adoption of sustainable practices, advocate for improved corporate governance, and foster better stakeholder relations. This active dialogue serves as a catalyst for positive transformation within companies and helps to align their practices with sustainable development objectives.

Voting, on the other hand, allows investors to exercise their rights as shareholders during corporate decision-making processes. By casting votes on matters such as board appointments, executive compensation, and related party transactions, investors can influence company behaviour and shape corporate practices. Voting acts as a tangible expression of investor values, providing an avenue for collective action and holding companies accountable for their actions.

SBI Funds Management Limited's (SBIFML/the AMC) vision is to be a trusted and respected Asset Manager by being an ethical, responsive and innovative partner in investment solutions. The AMC's fiduciary responsibilities towards its clients include long-term wealth creation, protection of interest of investors and risk mitigation; and towards the community at large include matters of social, governance and environmental factors.

At SBIFML, it is a core belief that a business run in the best interests of all stakeholders seldom fails to create lasting value for its investors. This responsibility of not trying to maximize short-term profitability but ensuring optimization of long-term return and risks is well elucidated in our Responsible Investment Policy. The Stewardship Code (Policy) is a natural extension of the AMC's responsibility to protect and enhance the long-term economic value of our clients' assets. This policy is applicable for Mutual Fund as well as AIF (Alternative Investment Fund) activities undertaken by SBI Funds Management Limited.

In this stewardship report, we account for the stewardship activities undertaken in FY25 by SBIFML.

SEBI vide its circular no. CIR/CFD/CMDI/168/2019 dated December 24, 2019 (“SEBI circular”) has mandated all Mutual Funds and Alternative Investment Funds to frame Stewardship Code in relations to their investments in listed equities. The circular requires reporting of stewardship activities as prescribed in the circular. SEBI also circulated a Consultation Paper on ESG Disclosures, Rating and Investing in Feb 2023<sup>1</sup> which advocated for a separate section on Stewardship Activities performed under the ESG Fund. Post this, SEBI, under its circular no. SEBI/HO/IMD/IMD-I – PoD1/P/CIR/2023/125 dated July 20, 2023<sup>2</sup>, mandated the ESG Funds to provide the fund manager’s commentary highlighting the stewardship initiatives under the fund. This commentary and stewardship activities carried out under the fund are available in the scheme annual report of the SBI ESG Exclusionary Strategy Fund.

**Principle 1 Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically**

**Compliance Status:** Complied with

The Board of AMC and Trustee Company approved the Stewardship Code on February 26, 2020. Further, an updated policy was reviewed and approved by the Board of AMC and Trustee Company at their meeting held on October 28, 2024 and October 29, 2024 respectively.

Our Stewardship Code may be accessed here: <https://www.sbimf.com/docs/default-source/disclosures/sbi-mutual-fund's-stewardship-code.pdf>

**Principle 2 Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.**

**Compliance Status:** Complied with

SBIFML has designed the Policy for Management of Conflict of Interest to ensure that the interest of the client/beneficiary is placed before the interest of the AMC. A Committee comprising of Deputy CEO, Chief Risk Officer and Chief Compliance Officer & Company Secretary has been constituted to deal with exceptional circumstances of conflict. The Chief Investment Officer (s) will be a permanent invitee to this committee.

SBIFML will identify actual or potential conflict of interest situations and shall manage them in line with the Policy. In FY25, there were 33 voting resolutions from 5 group companies of SBI. Since SBIFML’s MD is appointed by SBI, he recuses himself from voting on such resolutions. In FY25, SBIFML MD recused himself from voting on all 33 resolutions in accordance with the proxy voting policy.

There was no other significant instance of conflict of interest noted / reported during the period. SBIFML’s dealings with investee companies which are a group entity have been carried out at arms-length basis and are in compliance with applicable laws and regulations.

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<sup>1</sup> [https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing\\_68193.html](https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing_68193.html)

<sup>2</sup> [https://www.sebi.gov.in/legal/circulars/jul-2023/new-category-of-mutual-fund-schemes-for-environmental-social-and-governance-esg-investing-and-related-disclosures-by-mutual-funds\\_74186.html](https://www.sebi.gov.in/legal/circulars/jul-2023/new-category-of-mutual-fund-schemes-for-environmental-social-and-governance-esg-investing-and-related-disclosures-by-mutual-funds_74186.html)

### Principle 3 Institutional investors should monitor their investee companies Compliance Status:

**Compliance Status:** Complied with

The Fund Management & Research Team (referred to as investment team) is responsible for the monitoring of the companies invested in their company's performance. The investment team continues to monitor each investee company. As a part of this process, the fund manager/analysts, where feasible, attend meetings/conference calls conducted by the management of the investee company. Fund Managers and analysts use publicly available information, sell side research and industry information and endeavour to engage with selected investee companies at least once a year, through any means detailed above. The Investment Committee has reviewed the investee company monitoring and engagement activities for the said period.

### Principle 4 Institutional investors should have a clear policy on intervention in their investee companies. Institutional investors should also have a clear policy for collaboration with other institutional investors where required, to preserve the interests of the ultimate investors, which should be disclosed.

**Compliance Status:** Complied with

SBIFML would intervene in its investee companies, on a case-to-case basis, wherever it deems necessary. The decision in this regard will be taken by the Committee consisting of Chief Investment Officer (CIO) - Equity, CIO - Fixed Income, respective Fund Managers(s), ESG analyst(s), Chief Risk Officer, Chief Compliance Officer or any other official(s) as invited.

**Following are the details of our engagements, especially on ESG related topics in Financial Year (FY) 2024-25:**

SBIFML believes in being a steward for all its investee companies and nudge them towards better ESG disclosures as well as improving their initiatives year on year. SBIFML also believes that along with corporate engagements, interactions with other non-corporate stakeholders like regulators, investors, industry associations, NGOs, research organisation etc. are critical to creating the whole ecosystem around ESG as part of the AMC's fiduciary responsibility.

In FY25, SBIFML expanded its reach and engaged with corporate and non-corporate stakeholders on a variety of ESG topics to gain more knowledge on ESG issues, to better incorporate the ESG lens on investments and to make an impact on the ESG ecosystem at large.

#### Corporate Engagements

In FY25, SBIFML conducted 274<sup>3</sup> corporate engagements, out of which 93 (35.4%) were carried out during proxy voting, 107 (39.05%) were carried out to encourage investee companies to improve ESG disclosures and to know more about their ESG initiatives, and 74 (27.01%) were carried out on specific ESG topics material to the companies. Of all these engagements, overall ESG practices were discussed in 118 (43.07%) engagements, environmental topics were discussed in 56 (20.44%) engagements and social topics were discussed in 3 (1.09%) engagements. Table 1 and 2 provide the summary.

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<sup>3</sup> Note: The numbers between FY24 and FY25 look different because of change in methodology for counting voting engagements. From FY25, we count only the engagements where companies have provided written clarifications or set calendars for calls vs FY24 where telephonic/verbal communications were also considered as engagements.

Table 1: Corporate Engagements in FY25		
Engagements	Numbers	Percentage
Engagements on material topics	74	27.01%
Engagements on ESG assessment	107	39.05%
Engagements during voting	93	33.94%
Total engagements	274	

Table 2: Pillar-wise Corporate Engagements in FY25		
Pillar wise Engagements	Numbers	Percentage
Overall ESG Initiatives	118	43.07%
Environmental	56	20.44%
Social	97	35.40%
Governance	3	1.09%
Total	274	

#### Engagement Process and Levels:

SBIFML prioritizes companies for engagement through the course of a financial year based on presence in ESG fund and themes decided in the beginning of the financial year. However, based on requests from investee companies and due to any concerns or opportunities, observed through the year, ad-hoc engagements are added. The AMC reaches out to the companies via letters, emails or queries using various forums and meetings to raise ESG related issues. At least one meeting with the company, where ESG issues are discussed as considered as level 1 engagements. If a second meeting is held to discuss the ESG issues further, it is considered as level 2 engagement. Materiality assessments where SBIFML participates are considered level 2 engagements as they help companies define their ESG strategies. Level 3 engagements are those in which more than two meetings have been held to discuss the ESG issues in depth, or an outcome has been achieved. These outcomes can vary from improvement in ESG ratings of the firm, increased disclosures by the firm, improved initiatives by the firm, voting by the AMC based on their ESG initiatives or divestment or reduction in position due to ESG issues etc.

Select case studies from the engagements are presented in the Stewardship Report. Engagements can be a multi-year process, therefore SBIFML team keeps engaging with companies continuously when objective-led engagements are undertaken. SBIFML team records and circulates meeting notes as it not only helps to understand the progress in an engagement but also helps during ESG Audits.

Out of the 274 corporate engagements carried out through the year, 151 engagements (55.11%) were level 1 engagements, 13 (4.74%) were level 2 and 110 (40.15%) were level 3 engagements. Table 3 provides the summary.

Table 3: Levels of Corporate Engagement in FY25		
Level 1	151	55.11%
Level 2	13	4.74%
Level 3	110	40.15%
Total	274	

Under corporate engagements, SBIFML focused on deepening the focus on identification of ESG related red flags and opportunities within investee companies and also explored ways of effective communication and engagement with the companies. Much progress was made in ESG integration initiatives with wider adoption of internal ESG assessment framework for unlisted companies and new IPOs where ESG data is not published, nor the issuers are rated by external ESG ratings providers. The sheer number of new ESG assessments done on SBIFML's internal framework is testimony to the robust integration mechanism followed by the fund house since this research is done in-house by the financial and the ESG analysts together and is verified by the Head of Research and subsequently by CIO-Equities or CIO-Fixed Income. This ESG assessment is made a part of the initiation report for each stock which is invested in for the first time. Following were the learnings from this exercise<sup>4</sup>:

- Engagement with investee companies is quite effective when the companies are in the fund-raise process or IPO process. At this time, prospective investors have the chance to ask for more ESG disclosures, better initiatives and reinforce the importance of ESG oriented practices as a pre-requisite by investors.
- Assessment of long ESG risks, opportunities and management capability to handle such risks adds value to investment decision making as it helps screen out stocks where the gap of unmanaged risks is high or to identify companies where engagement can lead to improvements.
- In external ESG ratings, investors often face issues like no correlation between ratings provided by different ESG Rating Providers (ERPs) and contextualisation of domestic market. With the ESG assessment done internally, SBIFML is able to cover the issuers not rated by ERPs, engage at length with companies, encourage them towards improved ESG practices and disclosures and produce internal ratings that are comparable.

In FY25, SBIFML assessed 107 companies on its internal ESG assessment framework and used these ratings to inform the investment decisions. Out of these, 92 were under Equities and 15 under Fixed Income. SBIFML counts these as a part of Level 1 engagements (under ESG Disclosures) as SBIFML reaches out to these companies for data on ESG actively in many such cases. Financial analysts and Fund Managers meet the company many times during the course of assessment. Moreover, governance discussions form an active part of such meetings. When Environmental and Social issues find prominence in the internal ESG assessments, these are pursued with renewed vigour with multiple meetings with the managements under level 1, 2 and 3 engagements as described above.

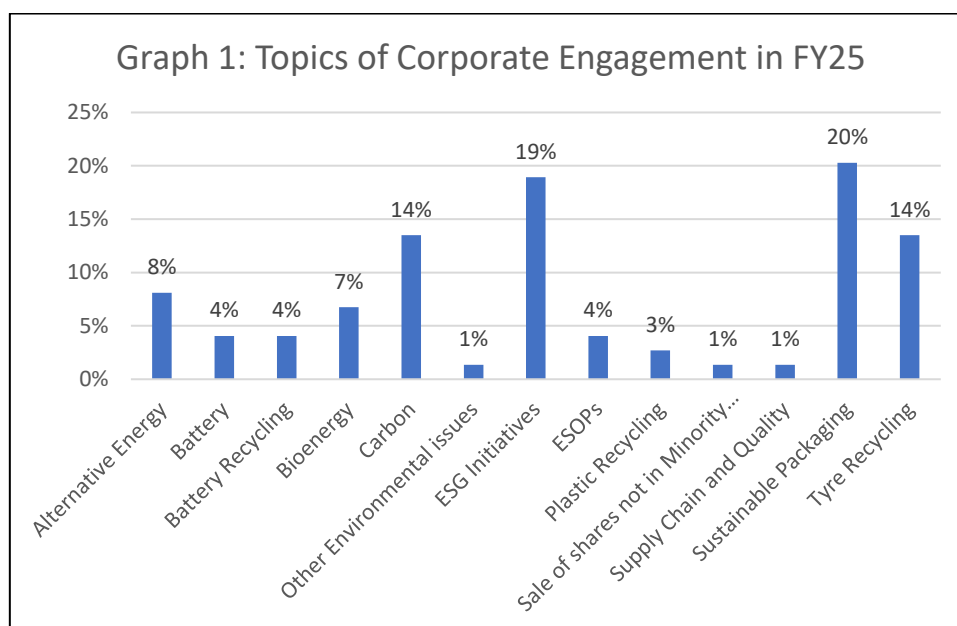
Out of the total 274 corporate engagements, 93 were especially conducted with investee companies at the time of proxy voting<sup>5</sup>. SBIFML believes that engagement at the time of voting is an extremely important tool to help companies improve their governance practices. We discuss the merits of such a strategy in the voting section. The 107 engagements carried out during ESG Assessments were on overall ESG initiatives, disclosures and improvements expected. The rest 74 corporate engagements were conducted on a variety of topics ranging from improvement of general ESG disclosures to discussing current ESG initiatives and investor expectations around ESG initiatives, environmental themes like alternative energy, sustainable packaging, bioenergy, battery, plastic and tyre recycling

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<sup>4</sup> The engagement related data presented in this report does not include unlisted companies engaged with for debt coverage of SBIFML, though it does include ESG assessments done for fixed income.

<sup>5</sup>Note: The number of Voting related engagements looks different between FY24 and FY25 due to change in methodology for counting such engagements. Till last year every communication from SBIFM to companies for voting related activities was counted, however from FY25, only engagements where companies actively participated via emails or calls have been counted to present this data.

etc. to social issues like supply chain sustainability to product and service quality. Following graph provides an insight about the engagements carried out topic-wise.

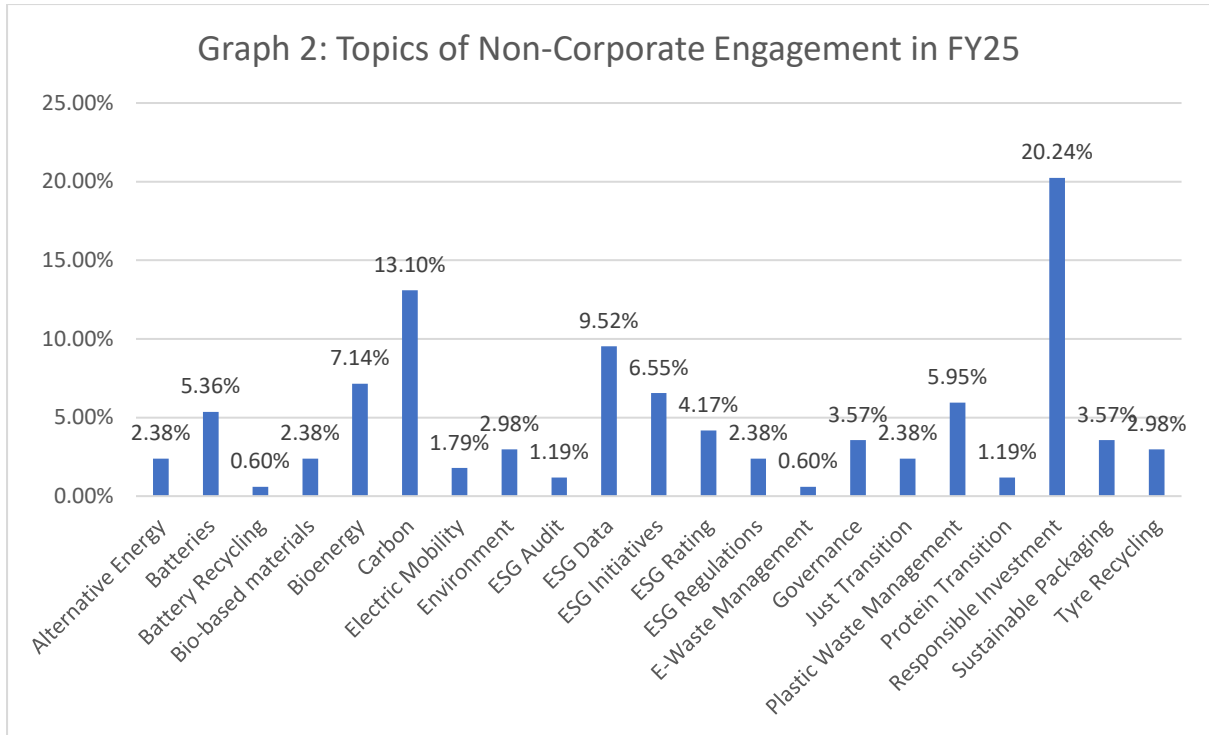


SBIFML remains a committed signatory to UNPRI and Climate Action 100+ and conducted multiple meetings with Indian companies identified as high carbon emitters from India by Climate Action 100+. SBIFML is the lead engaging-investor for 5 of the 7 such companies identified in India, and a collaborating engaging-investor for the remaining 2. The AMC's engagement with PSUs covered under CA100+ has especially been a highlight since significant progress has been made by PSUs in the context of climate mitigation initiatives across the years. Two of these PSUs have declared net zero carbon targets for 2026 and 2038 and the third PSU has started on the journey to set its targets with the help of NITI Aayog. The above graph includes such engagements under the "Carbon" sub-topic. In FY25, ESG team focussed on certain topics and engaged with companies that had significant involvement in these topics. Some of such engagement led to investment related outcome too. For instance, an elaborate engagement was designed on the topic of sustainable packaging. In this engagement, various companies involved in production of sustainable packaging materials, converters of such materials to usable packaging items and user industry for such materials were engaged with. The engagement ended up investing in two companies that are involved in the production of sustainable packaging materials.

A few case studies of corporate engagements have been presented in the annexure to this report titled "Case Studies".

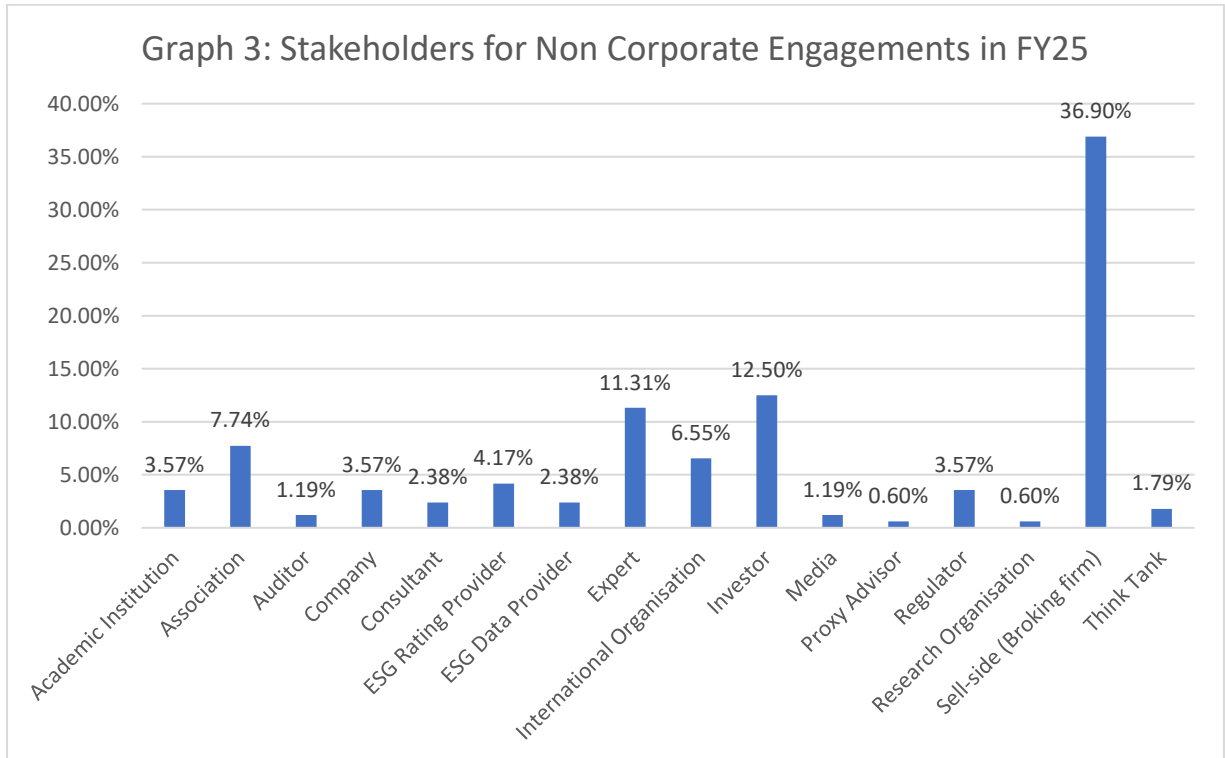
### Non-Corporate Engagements

The Indian market is still warming to the idea of responsible investment. Regulatory frameworks are evolving rapidly, as is evident from the multitude of circulars and consultation papers published by SEBI and RBI respectively in the last financial year. In such a scenario, being one of the largest asset manager in India in mutual fund segment, SBIFML has the responsibility to help create an ecosystem where sustainable finance can flourish. The AMC is a part of critical ESG taskforces and committees to contribute to the evolving ESG ecosystem like the SEBI ESG Advisory Committee, AMFI ESG Committee and FICCI ESG Committee to name a few.



As visible from the graph, maximum engagements were on the topics related to responsible investment, followed by discussions on decarbonisation, and then on ESG data and bioenergy.

From the perspective of stakeholders with whom these engagements were conducted, the maximum was with broking houses and their analysts who provide theme specific research, followed by investors and experts. This was followed by SBIFML's in-depth discussions on various forums and trade associations. The following graph represents the stakeholder groups engaged with in FY25.



## Principle 5 Institutional investors should have a clear policy on voting and disclosure of voting activity

**Compliance Status:** Complied with

SBIFML exercises its voting responsibilities for its investments through the corporate proxy voting policy which is available on our website. When voting proxies, SBIFML takes utmost care to ensure that all decisions are made solely in the interests of the funds/unitholders and with the goal of maximizing the value of their investments. However, at no point in time does it intend to participate directly or indirectly in the management of the companies. The details of the voting process are available in the Proxy Voting Policy which is available on SBIFML website.

Voting exercised along with the rationale supporting their voting decisions is disclosed on a quarterly basis within ten working days from the end of the quarter in the format prescribed by SEBI as amended from time to time. The AMC discloses the proxy voting exercised on an annual basis on the website of SBI Mutual Fund along with due certification from the 'scrutinizer' in terms of Rule 20 (3) (ix) of Companies (Management and Administration) Rules, 2014 and any future amendment/s to the said Rules thereof. SBIFML takes Proxy Voting very seriously as it is considered an important engagement tool for the AMC.

In FY25, SBIFML Voted on 5,669 individual resolutions, out of which, 5,425 resolutions were voted in favour and 244 were voted against. None of the resolutions were abstained.

**Table 4: Summary of Votes cast during the Financial Year 2024-25 (Mutual Fund level)**

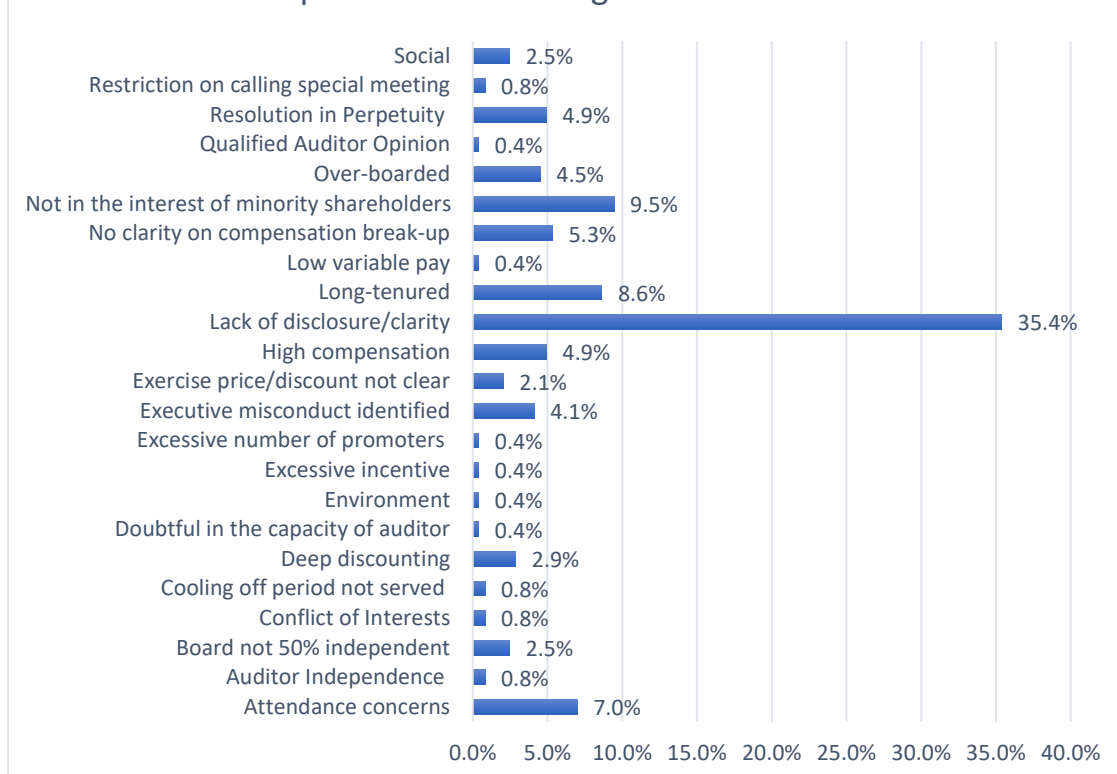
F.Y.	Quarter	Total no. of resolutions	Break-up of Vote decision	
			For	Against
2024-25	Quarter 1 - April to June	959	884	75
2024-25	Quarter 2 - July to September	3744	3643	101
2024-25	Quarter 3 - October to December	442	404	38
2024-25	Quarter 4 - January to March	524	494	30

Out of the 244 against votes, 21% were related to Related Party Transaction approval. 28% resolutions were related to director re-appointments and appointments and 14% for ESOP/RSU schemes. 7% were singularly related to approval of director compensation and 9% were combined resolutions of director appointment/re-appointment and compensation. Rest of the against votes for adoption of accounts, amendments in articles of associations, auditor appointment, charitable contributions in excess of limits etc. formed 3-5% each of the against votes casted in FY24. These have been voted against since the premise did not fit within SBIFML's broad proxy voting framework and generally accepted good governance practices.

<b>Table 5: Types of Resolutions Voted Against</b>	
<b>Type of Resolution</b>	<b>Percentage of resolutions voted against in each type</b>
<b>Related Party Transaction approval</b>	20.99%
<b>Director re-appointment</b>	19.75%
<b>ESOP approval</b>	13.99%
<b>Director appointment</b>	8.23%
<b>Director Compensation</b>	6.58%
<b>Director re-appointment &amp; Compensation</b>	6.58%
<b>Loan Approval</b>	5.35%
<b>Shareholder resolution</b>	4.94%
<b>Director appointment &amp; Compensation</b>	2.88%
<b>Office of Profit appointment</b>	2.88%
<b>Auditor re-appointment</b>	2.47%
<b>Reclassification of directors</b>	1.65%
<b>AoA amendment</b>	1.23%
<b>Auditor appointment</b>	0.41%
<b>Charitable Contributions</b>	0.41%
<b>Investment Approval</b>	0.41%
<b>Issuance of equity</b>	0.41%

Of the 244 against votes casted by SBIFML in FY25, 35% were voted against because of lack of sufficient disclosure or clarity in the resolutions, 10% were rejected because they were not in the interest of the minority shareholders, 9% of the resolutions were rejected as the directors were long tenured, 7% were related to attendance concerns, 5% were related to the resolutions being in perpetuity, 5% were rejected due to high compensations being offered to directors and 5% due to lack of clarity regarding the compensation breakup. Rest was rejected due to, excessive incentive, conflict of interest, qualified auditor opinions, , auditor independence concerns, audit quality, executive misconduct, etc. These details ae available in the graph below:

Graph 4: Reasons for Against Votes in FY25



While voting “against” resolutions is traditionally seen as a way of exercising the minority shareholders’ rights when they do not agree with board decisions or wish to send a clear signal to the companies to improve their performance, at SBIFML, we believe that more than voting “against” alone, engagement and clarification with the companies at the time of voting, helps to create more immediate impact. This is why SBIFML engages with companies when the resolutions proposed by them are not in line with SBIFML’s broad proxy voting framework. With such engagement, the AMC has been able to get numerous resolutions corrected and changed while helping companies in realising the investors’ expectations around governance.

In FY25, SBIFML engaged with companies for 116 resolutions where the resolutions did not seem aligned to SBIFML’s understanding of good governance. However, the companies responded to the AMC’s questions and either corrected or made commitments to bring about critical changes. SBIFML keeps track of such commitments for accountability and keeps engaging with companies to guide them further with their ESG journey. The following table provides the types of resolutions which were voted in favour after rigorous engagement with the companies, which either led to greater clarity and understanding about the resolution, helping SBIFML to use its vote judiciously, or helped the company to make the required changes so as to change the resolution or the governance practice itself. In both the cases, we found that companies highly appreciated the engagement and forged a long-term relationship with the AMC for continued engagement. We also find that companies now pro-actively reach out to the AMC to seek guidance and discuss investors’ opinions and expectations from upcoming policy changes that may require shareholder approvals.

<b>Table 5: Types of Resolutions Voted in Favour with Engagement</b>	
<b>ESOP approval</b>	29%
<b>Director re-appointment</b>	24%
<b>Director appointment</b>	23%
<b>Director re-appointment &amp; Compensation</b>	10%
<b>Director Compensation</b>	6%
<b>Director appointment &amp; Compensation</b>	4%
<b>Loan Approval</b>	2%
<b>AoA amendment</b>	1%

Most of the engagement was carried out when ESOPs were being proposed where proposed compensations did not have clarity on the ESOP exercise prices or performance parameters for granting/vesting of ESOPs. Similarly, there were high number of engagements carried out to get clarity regarding the appointment and reappointments of directors. Various companies wrote back to the AMC with a commitment to improve board constitution in this direction, which is when the AMC decided to vote in favour. We expect such engagements to bring in more collaborative changes in the corporate governance practices in the country.

## Stewardship Reporting of SBI ESG Exclusionary Strategy Fund

SEBI had circulated a Consultation Paper on ESG Disclosures, Rating and Investing in Feb 2023<sup>6</sup> which advocated for a separate section on Stewardship Activities performed under the ESG Fund. Post this SEBI, under its circular no. SEBI/HO/IMD/IMD-I –PoD1/P/CIR/2023/125 dated July 20, 2023<sup>7</sup>, mandated the ESG Funds to provide the fund manager’s commentary highlighting the stewardship initiatives under the fund. The stewardship activities carried out under the SBI ESG Exclusionary Strategy Fund in 2024-25 are included in this section of the Stewardship Report.

### Corporate Engagements:

In FY25, SBIFML engaged with 19 companies under the ESG Fund on ESG issues. These engagements are summarised in case studies as follows:

S.No.	Nature of Business	Engagement Case Study	Topic and Mode of Engagement
1	Auto Company 1	As part of our stewardship process, we engaged with an auto company regarding the proposed appointment of an independent director, where concerns had been raised under our internal overboarding policy. Specifically, our ESG team sought clarification on the director’s role at a privately held advisory firm where he is a designated partner and chairperson. Our policy considers such roles equivalent to whole-time directorships when determining board-level capacity. The company responded that the firm operates as a strategic consultancy with limited scale and clarified that the director’s involvement is minimal, not comparable to the demands of a whole-time executive role in a listed entity. They also emphasised that the appointment had been made after evaluating the director’s ability to contribute meaningfully to board responsibilities. Based on the detailed clarification and alignment with the intent of our policy, we assessed that the director could not be considered overboarded and voted in favour of the resolution. This engagement highlights the importance of context-driven assessments and direct dialogue in proxy decision-making.	Governance; via email
2	Bank 1	SBIMF met the risk management team of a large bank to discuss their views on RBI’s latest draft on TCFD framework. The framework guides companies to disclose climate-related financial risks and opportunities, structured around four key pillars: governance, strategy, risk management, and metrics and targets. The bank’s board and senior management oversees climate-related matters through a dedicated ESG committee, ensuring that climate considerations are integrated into the overall business strategy and decision-making processes. Under the strategy pillar, the bank evaluates short, medium, and long-term climate-related risks and opportunities, especially how climate change could impact its lending portfolio and operational resilience. In the risk management domain, it has begun integrating physical and transition risks into its	Decarbonisation; via meeting

<sup>6</sup> [https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing\\_68193.html](https://www.sebi.gov.in/reports-and-statistics/reports/feb-2023/consultation-paper-on-esg-disclosures-ratings-and-investing_68193.html)

<sup>7</sup> [https://www.sebi.gov.in/legal/circulars/jul-2023/new-category-of-mutual-fund-schemes-for-environmental-social-and-governance-esg-investing-and-related-disclosures-by-mutual-funds\\_74186.html](https://www.sebi.gov.in/legal/circulars/jul-2023/new-category-of-mutual-fund-schemes-for-environmental-social-and-governance-esg-investing-and-related-disclosures-by-mutual-funds_74186.html)

		<p>broader risk assessment framework. Tools such as hazard heat maps, environmental due diligence, and preliminary climate stress testing are being applied, although data availability remains a significant challenge. Importantly, climate risks are now considered as part of capital adequacy assessments, and the bank has been engaging with regulators to promote uniform climate risk databases across banks to ensure consistency in disclosures and scenario analyses. The Bank is monitoring financed emissions and green lending exposure. It has also started incorporating internal ESG scores for borrowers, though these currently do not feed into formal credit ratings. The bank is facing difficulties in defining “green finance” due to the absence of a standardized Indian climate finance taxonomy, unlike the EU (before May 2025 release of Indian Climate Taxonomy draft). Its ESG framework includes an internal borrower rating system, though not yet linked to credit ratings. It is monitoring global developments like IFRS S1 and S2 standards and preparing for future compliance, while remaining focused on financial stability.</p>	
3	FMCG Company	<p>We engaged with a major FMCG player, who is actively exploring sustainable packaging solutions, particularly compostables, in response to emerging regulations and long-term environmental goals. However, the company highlighted several challenges hindering immediate adoption. While bagasse, PLA, PHA, and PBAT-based alternatives are available, most are imported and lack standardisation in India, leading to widespread mis-marketing and unreliable performance. Functionality is critical as packaging must endure India's extreme climatic conditions during transport while maintaining product integrity. Currently, compostable materials fail to consistently meet required barrier properties like WVTR and OTR, and their quality can vary from batch to batch due to agri-based raw materials. Extensive validation and multi-batch trials are underway, but costs remain a significant roadblock. Compostable packaging can cost 2.5–3x more than plastics, making them unviable for mass-market products in a highly price-sensitive economy. The company believes that compostables may initially find utility in secondary or double-layer packaging formats, especially where metallised coatings can help meet barrier needs. However, until regulatory enforcement increases or costs reduce, these will largely remain experimental. Meanwhile, the company is prioritising recyclability through a shift from multi-layer plastic (MLP) to mono-material layered (MML) packaging, which is more compatible with India's Extended Producer Responsibility (EPR) framework. MMLs are easier to recycle and meet recycled content targets, unlike MLPs that mostly end up in landfills. The brand is already using 70% recyclable packaging, with further improvements in progress. It is plastic-neutral and processes over 43,000 tonnes of plastic annually. While high-margin SKUs may absorb the cost of sustainable materials, large-scale adoption is only likely when regulation mandates change or supply-side innovation reduces cost. Through collaborative initiatives with innovators, the company remains committed to long-term sustainable packaging transformation.</p>	<p>Sustainable Packaging; via meeting</p>

4	NBFC Company	During our stewardship engagement with a listed entity, we reviewed a resolution proposing the appointment of an independent director. The resolution was incorrectly classified as an Ordinary Resolution, despite the Companies Act, 2013 mandating a Special Resolution for such appointments. We promptly flagged this discrepancy to the company, citing the legal requirements under Section 149(10) and applicable SEBI regulations. The company acknowledged the oversight and responded by filing an addendum with the stock exchanges, rectifying the resolution classification to a Special Resolution. This engagement underscores the importance of vigilant review of proxy voting materials and the constructive role investors can play in ensuring regulatory compliance and strengthening governance practices.	Governance; via email
5	Industrials company 1	As part of our stewardship responsibilities, we engaged with a listed industrials sector company to seek clarity on a resolution proposing the appointment and continuation of an independent director beyond the age of 75. Our internal policy flags overboarding concerns where individuals hold more than three board positions while occupying roles equivalent to whole-time directors in their own firms. In this case, we requested details on the individual's responsibilities, revenue involvement, and client engagement across two firms he was associated with. The company facilitated a detailed response outlining that the director spends limited time (2–3 days per month) on strategic advisory for a small number of clients through his personal consultancy, while his role in a second startup venture is non-lead and minimal. Based on this clarification, and the director's assurance of sufficient bandwidth to fulfil board duties effectively, we determined that he did not meet our threshold for overboarding and subsequently voted in favour of his appointment. This case underscores the importance of context-specific engagement and evidence-based evaluation over rigid application of quantitative thresholds.	Governance; via email
6	Auto Company 2	As part of our stewardship responsibilities, we participated in the materiality assessment exercise of a large automotive company, providing investor perspectives on key ESG priorities. We shared our views on the most financially and reputationally significant sustainability issues for the sector, including supply chain resilience, decarbonisation pathways, responsible sourcing, and product safety. Our engagement aimed to support the company in aligning its sustainability disclosures and strategy with stakeholder expectations and global best practices.	ESG disclosures; via form sent by company
7	Life Insurance company	As part of our stewardship process, we engaged with a company to evaluate the proposed appointment of an independent director, specifically to assess concerns around potential overboarding under our internal policy. Our ESG team sought clarity on the director's role at a privately held CA firm, where he is a designated partner. Our internal framework considers such positions equivalent to whole-time directorships when evaluating board-level capacity. The company clarified that the director is a practicing Chartered Accountant with over four decades of experience in audit, tax, and corporate advisory services. He has been a partner at the audit and	Governance; via email

		assurance firm since 1984. While the company was unable to share further details regarding the director's responsibilities within the external firm—citing confidentiality and limited access—they confirmed that neither the company nor any of its group entities have availed audit or non-audit services from the said firm. The company also confirmed that all statutory disclosures had been received, and that the director meets the independence criteria under the Companies Act, SEBI LODR, and IRDAI. Based on the clarity provided and alignment with the intent of our overboarding policy, we concluded that the director's board commitments were manageable and voted in favour of the resolution. This engagement underscores the value of direct dialogue and contextual evaluation in exercising stewardship responsibilities.	
8	Metals company	We engaged with the sustainability team of a leading metals producer to understand its copper recycling strategy and the potential impact of the EU Carbon Border Adjustment Mechanism (CBAM). The company has announced a ₹2,000 crore investment in a copper and e-waste recycling facility, which will add 50 KT capacity through pyrometallurgy, making it India's first large-scale organized copper recycler. The unit will rely on imported scrap and formal tie-ups due to limited domestic availability and is expected to generate mid-teen IRRs while enabling recovery of precious metals. Though environmental concerns were raised locally around slag disposal, the company claims these have been addressed. On the aluminium side, the company's exposure to CBAM is expected to be limited since most emissions are Scope 2, which are currently excluded. It had also partnered to supply aluminium coaches and wagons, but the project is stalled due to pricing challenges, though the company remains open to future bids if aluminium is mandated.	Decarbonisation; via meeting
9	Bank 2	SBIMF met the risk management team of a large bank to discuss on RBI's latest draft on TCFD framework and broad ESG strategies of bank. RBI initiated discussions on climate risk through a 2022 discussion paper based on the Task Force on Climate-related Financial Disclosures (TCFD), followed by the 2024 draft disclosure framework. However, no formal mandate exists yet for climate stress testing or scenario analysis, leading banks to adopt individualized, board-approved assessments aligned with global frameworks like TCFD and GRI. Banks are therefore using sector-specific questionnaires and borrower engagement to assess ESG risks, applying this uniformly to listed and unlisted entities. Disclosure timelines vary across banking categories, with Scheduled Commercial Banks and NBFCs expected to disclose on governance, strategy, and risk management by FY26, and on metrics and targets by FY28. RBI is also developing a location-based climate risk database in collaboration with climate scientists and tech firms. Meanwhile, some banks are working with external agencies for granular physical risk mapping, particularly in agriculture and retail lending. Climate stress testing is gradually expanding to retail portfolios, although data gaps persist. This Bank, for example, conducts internal climate scenario analyses, which inform capital adequacy assessments under ICAAP, though detailed capital impacts	Decarbonisation; via meeting

		<p>are undisclosed. Banks use internal ESG frameworks for due diligence in project finance and term loans, and subscribe to ESG data providers for secondary insights.</p> <p>Adoption of RBI's green deposit framework has been limited, as regulatory constraints prevent incentive pricing. Further, Lack of "green premium" in bank borrowings also restricts competitive green financing.</p>	
10	QSR Company	<p>As part of our stewardship efforts, we engaged with the sustainability leadership team of a leading quick-service restaurant (QSR) company in India to understand its approach to managing social and environmental factors. The company has implemented a robust, tech-enabled system to track and resolve consumer complaints, supported by structured escalation and training protocols. Despite rising sales, complaint volumes have remained stable. Significant investments have been made in modernizing food processing infrastructure, and efforts are underway to localize key ingredients without compromising quality.</p> <p>The company has set a target of 50% renewable energy use by decade-end, with solar already installed at major facilities. It operates one of the largest EV delivery fleets in India and is working with academic partners to quantify emissions reductions. Waste management initiatives include Zero Liquid Discharge systems and in-house biodiesel production from used cooking oil. While a plant-based product launch saw limited uptake, the company continues to invest in healthier recipes and sustainable packaging. Governance concerns were addressed with clarity, and the company is focused on improving global ESG benchmark scores through continued innovation and operational efficiency.</p>	Environmental and Social Initiatives; via meeting
11	Bank 3	<p>Amid increasing shareholder pushback on ESOP and RSU proposals due to high discounts and lack of performance transparency, a leading private sector bank in India proactively engaged with institutional investors to understand their expectations around equity-linked compensation. During the engagement, we emphasized the need for clear performance-based vesting conditions, limited dilution, transparency in disclosures, and the inclusion of clawback provisions. In response, the bank introduced a new Performance Linked Restricted Stock Unit (PRSU) Scheme, reallocating shares from a previously approved ESOP pool to cap dilution at 1.0% of the expanded capital base. The scheme excluded promoters and non-executive directors and prioritized inclusion of junior to mid-level employees, who would receive the majority of the grants. Vesting was designed over 1–4 years and tied to both company-level metrics—such as return on equity, asset quality, and profitability—and individual performance ratings.</p> <p>While the PRSUs were proposed at a significant discount to market price (face value of ₹5 versus a market price near ₹1,928), the bank addressed potential misalignment by embedding strict vesting thresholds, malus and clawback provisions, and structured</p>	Governance; via meeting

		<p>transparency commitments. These included annual disclosures on the number of PRSUs granted, vesting status, target achievements, and performance parameters used. The final scheme demonstrated a balanced approach to talent retention and shareholder alignment. Given the thoughtful incorporation of investor feedback and the commitment to governance and disclosure, we supported the resolution and view this as a model engagement outcome in the evolving landscape of executive compensation in India.</p>	
12	IT Services Company 1	<p>We engaged with a prominent company in the sector of engineering research and development services. The engagement provided useful insights into the company's structured ESG journey, highlighting its shift from basic disclosures to integrated sustainability practices, including SBTi-approved carbon and water neutrality goals for 2030. It offered clarity on environmental initiatives such as 23% renewable energy use (targeting 50%), HVAC efficiency upgrades, and cloud adoption to reduce Scope 2 emissions. The discussion shed light on sustainability-led engineering efforts, including reduced material usage in auto components. Social initiatives around employee development through structured programs were emphasized, although progress on gender diversity—both at employee and board levels—remains limited. The company clarified governance enhancements through updated materiality assessments, third-party ESG ratings, and integrated reporting practices. They also provided some clarity around the company's involvement in 5G project execution, not operations, and that it does not manage data centers directly but provides engineering support for energy efficiency. While the company acknowledged increasing client ESG expectations and decarbonization-led business shifts, it does not yet track green revenues separately. Discussions on attrition clarified that voluntary exits are below 20%, with past spikes attributed to industry-wide post-pandemic trends. The company also shared its outlook on AI's workforce impact and noted it is actively monitoring global reporting mandates like IFRS and CSRD. The engagement was valuable in obtaining these operational clarifications.</p>	Environmental and Social Initiatives; via meeting
13	IT services Company 2	<p>SBI MF met the senior management of a leading technology company to understand ESG initiatives. It has adopted robust cybersecurity measures to address the risks of data traveling across diverse environments. With stringent data protection regulations in regions like the EU, the company has invested significantly in cybersecurity infrastructure and secure data handling. Measures include disabling the ability to reproduce, print, or screenshot confidential emails. These efforts have helped the company avoid major data breaches or penalties. With banks facing regulatory scrutiny, the company sees an opportunity to offer enhanced cybersecurity services to this sector. In terms of sustainability, the company integrates environmental considerations into project delivery rather than treating sustainability as a standalone service. Although consulting remains a small revenue segment, it designs software with energy efficiency in mind and has assisted energy sector clients in improving operational efficiency through AI and IoT</p>	Environmental and Social Initiatives; via meeting

		<p>solutions. Company focuses on internal talent development, with 50–75% of new project roles filled from within. It runs regular training programs, hackathons, and internal events to foster continuous learning. Delivery managers often double as trainers, and a 10% project team buffer is maintained for on-the-job upskilling. Non-adoption of new technologies could result in employees exiting the organization. In geospatial and weather forecasting, the company provides highly accurate forecasts for agricultural planning, supporting 150,000 acres of farmland with services including soil testing and organic farming advice. In e-commerce, it offers digital tools for demand forecasting and inventory optimization. Although the Indian share is modest (4–5%), global markets drive this segment.</p>	
14	Auto Company 3	<p>SBIMF met the senior management team of one of the leading automobile companies in the country's renewable energy accounted for only 2.66% of its total energy use—much lower than peers, though the company aims to increase this to 30% by 2025 with incremental capex. Electrification is on the horizon, with plans to launch six premium battery EVs by 2030 in the mid-size SUV segment. These vehicles will offer a 550 km range, powered by 60 kWh NMC battery chemistry. By 2031, the company targets a powertrain mix of 25% hybrids and 15% battery EVs. Despite its current lack of EV models, the company's average CO2 emissions (111.06 g/km) are the industry's lowest, due to its focus on compact, fuel-efficient vehicles. The company believes India's EV adoption will remain modest in the short term and argues that aggressive EV strategies by some OEMs may not be sustainable, citing examples of foreign car makers scaling back EV production in the U.S. Hybrid vehicles are gaining ground in India, partly due to potential GST reductions (from 48% to 12%) and consumer concerns about range anxiety and limited charging infrastructure. In the hybrid vehicles, currently the company offers strong hybrid models through a partnership with a Japanese auto major and mild hybrids across several models. Strong hybrids are about 30% more fuel-efficient than ICE vehicles, while mild hybrids deliver a 22–23% improvement.</p> <p>The company is also investing in ethanol-based flex fuel technology, showcasing a model in 2022, with a commercial launch expected in FY25. This fuel can reduce CO2 emissions by up to 79% and is biogenic in nature. To ease the ethanol transition, the company is developing kits to make older vehicles E20-compliant and working with industry bodies for broader availability of blended fuels. Additionally, the company is piloting a biogas project with its Japanese parent and a Dairy company, exploring bio-CNG from cow dung, backed by a ₹2.3 billion investment and recent government incentives.</p>	Sustainable Mobility; via meeting
15	Bank 4	<p>As part of our ongoing stewardship efforts, we participated in a climate risk engagement session conducted by a major financial institution to understand its climate strategy and risk mitigation roadmap. The institution shared its approach to integrating climate-related risks within its enterprise risk framework, including plans to</p>	Decarbonization; via meeting

		<p>assess physical and transition risks, measure financed emissions at borrower level, and develop a Net Zero transition strategy. It also outlined its alignment with RBI's evolving climate regulations, its adoption of internationally accepted tools like PCAF and TCFD, and its focus on sectoral decarbonization and stress testing methodologies. The session provided valuable insights into the institution's commitment to embedding climate considerations into lending, investment decisions, and disclosures, reinforcing the relevance of financial system alignment with India's broader net-zero goals.</p>	
16	Industrials company 2	<p>We engaged with a diversified industrial solutions provider to understand its sustainability-aligned growth strategy and climate-relevant business pivots. The company has seen strong demand for its water and air pollution control offerings, particularly in the steel and cement sectors, where clients are proactively targeting emission and water efficiency improvements beyond regulatory mandates. The shift from conventional to advanced water treatments such as ZLD, effluent recycling, and desalination—now comprises two-thirds of the water business and is expected to drive future growth, supported by in-house thermal engineering capabilities. Similarly, its air pollution control business is moving from particulate control to gaseous emissions, with scrubbing solutions expanding into new sectors like carbon, silicon, and bio-CNG. The acquisition of a high-purity water treatment firm has opened doors in pharma, personal care, and potentially semiconductor sectors, aligning with rising water quality standards. In the boilers business, exports have picked up post the acquisition of a tech company and domestic demand is growing due to industrial expansion. The company is also scaling its green energy portfolio, deploying solar, wind, and biomass-based heating with competitive equity returns, while strategically building internal capability in chemicals and streamlining its underperforming industrial infrastructure segment. Overall, the engagement highlighted the company's evolving role as a technology-led solutions provider to industrial decarbonization, backed by a measured approach to capital deployment and a focus on high-margin, sustainability-linked opportunities.</p>	Environmental Opportunities; via meeting
17	Auto Company 4	<p>We engaged with a listed company ahead of a resolution seeking shareholder approval for a new Employee Stock Option Plan (ESOP). The scheme proposed issuing over 1 million options through secondary acquisition, with key terms such as exercise price and vesting criteria delegated to the company's Nomination and Remuneration Committee (NRC). In line with our internal ES G framework, which emphasizes transparency in incentive structures, we reached out to seek clarity on how the discount and performance linkage would be determined.</p> <p>The company clarified that the NRC would be responsible for defining individual-specific performance parameters, assessing eligibility, and setting the exercise price. Given the varied roles across the organization, they argued for flexibility in applying role-specific performance criteria. They confirmed that vesting would</p>	Governance; via email

		be subject to appropriate conditions—time-based, performance-based, or both—and agreed that the parameters set by the NRC would be objective and tailored to each role. This clarification enabled us to assess the alignment of the scheme with long-term shareholder value and vote in favour of the resolution.	
18	Consumer Durables Company	As part of our stewardship responsibilities, we engaged with a listed consumer durable company following the announcement by its foreign parent to reduce its shareholding from a majority stake to a minority one. We expressed our concerns about the decision, highlighting that it the parent entity had earlier indicated that it would retain a controlling stake. The engagement was designed to communicate directly with the Independent Directors of the board to understand the rationale for the divestment and understand any potential conflicts of interest, impact on brand royalties, supply chain synergies, and board representation etc. The board of directors responded to our communication with a commitment towards good governance principles within both the entities. We find that engaging with independent directors provides a platform for investors to express their concerns, fostering a culture of openness and mutual respect.	Governance; via email
19	Cement Company	<p>We engaged with one of the largest cement producers in the country and also the largest carbon emitter among its peers. It has committed to achieving an 85% green energy mix by 2030, progressing from its current 34% (20% from Waste Heat Recovery Systems and 14% from other renewables) to a targeted 65% by 2028. The company employs a diversified renewable strategy for integrating solar with battery storage, wind, and hybrid systems, aiming to reduce energy costs and mitigate risks from dependence on a single source. Retrofitting older plants and leveraging state policies like energy banking are key to this transition, though challenges like state-level levies persist.</p> <p>The company is also improving its cement-to-clinker ratio from 1.44 to 1.54 by FY27–28 through increased use of supplementary cementitious materials (SCMs), such as fly ash and slag, significantly reducing CO<sub>2</sub> emissions. Investments in composite cement facilities, especially in Eastern and Southern India, support this shift, though broader acceptance in infrastructure projects may require policy adjustments. The company is raising its Thermal Substitution Rate (TSR), currently around 5.1–5.2%, with plans to reach 13–15% in the long term through alternative fuels like RDF and biomass. It is also piloting a technology to reduce kiln-related emissions, potentially lowering total CO<sub>2</sub> emissions by 10–15%. Approximately 11–14% of CapEx is directed toward sustainability initiatives, including renewable energy and waste recovery upgrades, and this allocation will continue over the next five years. While Carbon Capture, Utilization, and Storage (CCUS) is under evaluation with various partners, progress hinges on supportive policies and viable economics. The acquisition of another Cement company offers scope for modernization, renewable integration, and operational standardization to reduce emissions across older facilities. However,</p>	Decarbonisation; via meeting

		to decarbonise the old plants will require time. Additionally, company uses an internal carbon price of \$10/tonne, expected to be revised post the launch of India's Carbon Credit Trading Scheme	
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#### Voting done under the SBI ESG Exclusionary Strategy Fund:

In FY25, total resolutions voted on companies which were held in the ESG Exclusionary Strategy Fund were 397. Out of them 396 were voted in favour, and 1 was voted against. The vote cast against was due to less than 75% attendance of the proposed director in the last 3 years. There were 5 resolutions where SBIFM engaged with the company to either receive more information, to get resolutions corrected or to get a written intent from the company towards improvement before voting in favour. All the resolutions under the SBI ESG Exclusionary Strategy were voted on "governance" rationales.

Table 6: Voting in SBI ESG Exclusionary Strategy Fund		
	No of resolution	Percentage of resolutions
<b>Total Resolutions</b>	<b>397</b>	
<b>Against Votes</b>	1	0.25%
<b>For Votes</b>	391	98.49%
<b>Engagement</b>	5	1.26%

## **Annexure: Stewardship Case Studies**

### **Case Study 1: In-Depth engagement with a paper company undergoing transformation to a compostable packaging solution company**

#### **Introduction:**

In the context of rising global demand for sustainable alternatives to plastic, our engagement focused on a small cap Indian paper company that specializes in compostable packaging materials. Over the past decade, the company has undergone a strategic transformation, moving away from incompatible high-strength paper products to a focused portfolio aligned with its raw material strengths, notably bagasse-based pulp. The company's offerings now span greaseproof paper, tableware, and flexible packaging—critical components for food-grade, compostable applications. With growing regulatory and consumer pressure to eliminate single-use plastics, this business has positioned itself as a key enabler of circular economy solutions, targeting both domestic and export markets.

The company's operations are rooted in Ayodhya, U.P., India, but are now expanding to Guatemala to tap global demand, particularly in the US market for tableware and flexible packaging. Its R&D strategy has also evolved globally, with a material science team in Portland, USA, focused on refining water vapor barrier properties essential for food packaging. Over time, the company has emerged as an innovator in home-compostable packaging, with significant ambitions to scale both in India and overseas.

#### **Engagement Process and Discussion:**

We engaged extensively with the company's leadership including the Managing Director, Executive Director, CFO, and business heads across multiple meetings. Our dialogue focused on product innovation, resource efficiency, quality control, and long-term sustainability of raw materials. One of the standout themes was the company's decision to transition towards an asset-light model in tableware by outsourcing production while retaining control over pulp and product specifications. This was driven by bagasse availability constraints and aimed at optimizing cost structures.

Our engagement also examined the company's aggressive expansion in greaseproof paper and flexible packaging. We evaluated capacity addition plans, cost economics (e.g., greaseproof paper at INR 140/kg and flexible packaging at INR 300/kg), expected EBITDA margins of 25–33%, and lifecycle tracking initiatives for clients with green targets. Notably, discussions with the team clarified how strategic tie-ups (e.g., with sugar mills and overseas packaging firms) are securing long-term access to raw materials and strengthening market linkages.

In addition, we explored R&D priorities, such as the shift to non-metallized packaging for home compostability and collaborations for food-grade sealing solutions. Through our engagement, we gained visibility into the company's global partnerships, fundraising plans, and its nuanced response to evolving sustainability trends and policy mandates.

#### **Conclusion:**

Based on the depth of innovation, raw material strategy, and globally scalable product offerings in compostable packaging, we gained strong conviction in the long-term value proposition of the company. As a result of this engagement, we decided to initiate a stake in the company.

## Case study 2: Understanding Decarbonisation Plans in steel industry

### Introduction:

We met the sustainability team of one of the India's largest steel makers. Given the sector's high emissions intensity and strategic importance to the economy, decarbonizing steel production has become a national imperative. The engagement was focused on understanding the government's policy landscape, impact of EU CBAM (Carbon Border Adjustment Mechanisms) and industry long-term decarbonisation strategy.

### Engagement Process and Discussion:

The Ministry of Steel has acknowledged the challenge of decarbonizing a heterogeneous sector, where over half of India's steel production comes from informal players lacking the financial and technological capacity for rapid transition. Although the government has released a high-level framework, *Greening the Steel Sector in India*, it stops short of offering mandates or financial incentives akin to those in developed markets. To drive implementation, 14 task forces have been formed across three key areas: (i) incentivization and ecosystem development (including taxonomy, demand creation, and monitoring), (ii) decarbonization levers (such as energy efficiency and process innovation), and (iii) R&D and financing, with a focus on workforce readiness and new technologies. India estimates that \$283 billion will be needed to decarbonize its steel industry. An interim target is to increase renewable energy use in steelmaking from 7.2% in FY22 to 43% by 2030. An India-specific green steel taxonomy is also under development. While the initial emissions target was 1.7 tCO<sub>2</sub>e/tcs, industry consultations suggest a more achievable 2.2 by 2030, down from the current 2.6. Informal players using coal-based DRI face steeper challenges due to higher baseline emissions.

The decarbonization roadmap involves near-term renewable capacity additions (up to 10 GW by 2030), potentially reducing emissions by 20–30%. Long-term strategies include transitioning to electric arc furnaces (EAFs), establishing green steel facilities, and increasing scrap use—backed by logistics infrastructure. Emissions intensity has declined at a ~3.5% CAGR since 2017, with a 2030 target of 1.95 tCO<sub>2</sub>e/tcs.

The EU's CBAM presents both a threat and a catalyst. From 2026, Indian exporters must report actual emissions and pay border taxes, with penalties of €10/ton for misreporting. Free allowances phase out by 2033. Given limited EU exposure, India is considering serving European markets via low-carbon facilities.

Green hydrogen, supported under the National Green Hydrogen Mission, is seen as critical but longer-term. Pilots are underway to replace natural gas in gas-based DRI units. However, high costs, technical challenges, and infrastructure constraints mean large-scale adoption is unlikely before 2030.

### Conclusion:

Our engagement with the company helped us understand that steel sector in India is navigating a complex transition, with emerging policy clarity, rising compliance expectations, and evolving market pressures from global climate regulation. We understand that EU CBAM will have a severe impact on Indian steel players who have a footprint in Europe and have high emissions, post 2030, since the free allocation for under the Emission Trading Scheme (ETS) will slowly phase out.

### Case Study 3: New Bioplastics Opportunity being explored by a Sugar Company

#### Introduction:

With the goal of reducing cyclicalities in its traditional sugar business and aligning with global sustainability trends, a leading Indian sugar manufacturer has announced its strategic entry into bio-based compounds for eco-friendly packaging. The company aims to derive 50% of its revenue from non-sugar segments by H2 FY27, marking a significant pivot towards green chemistry. The company's marquee investment is a Polylactic Acid (PLA) production facility based on sugar-derived feedstock (bagasse), positioning it as a first-mover in India's nascent bioplastics market. This move is particularly timely, given India's regulatory push to phase out single-use plastics and growing FMCG demand for compostable packaging solutions.

#### Engagement Process and Discussions:

We engaged with the company's senior leadership, including the promoter family, CFO, and Head of PLA Business, to understand the execution roadmap, risk mitigation, policy engagement, and economics of the PLA project. The plant is expected to commence operations in November 2026, reaching 90% utilization by FY28. Capex is estimated at ₹2,850 crore, with ₹1,100 crore as capital subsidy, and an effective borrowing cost of just 2.4%. The project targets ₹2,000 crore topline with 35% EBITDA margins, enabled by process partnerships with international technology providers.

India's phased ban on single-use plastics (SUPs), which account for over 8 million tonnes of annual consumption (domestic + imported), creates a significant substitution opportunity for compostable alternatives like PLA. With regulatory pressure mounting and FMCG brands seeking compliant packaging solutions, the company's entry into PLA is both timely and aligned with national priorities. As the only scalable bio-based, compostable alternative currently available, PLA is poised to benefit from growing demand, especially as enforcement of the SUP ban strengthens.

To de-risk market entry, the company is already importing and selling PLA to build customer relationships and understand product-market fit. It is engaging with over 25 FMCG and healthcare brands, including discussions on PLA bottles with beverage companies. Regulatory engagement includes advocating for import duties on low-cost Chinese PLA, handheld scanners to detect non-compliant plastics, and collaboration with policymakers on EPR and composting standards.

From a product development standpoint, the company is investing ₹50–60 crore in a dedicated R&D lab focused on polymer innovation, recyclability, and compostable grades. It is also producing biopotash from distillery waste and exploring circular solutions like chemical recycling and anaerobic digestion. The company will be an anchor tenant in a proposed Bioplastics Park in UP, aimed at integrating compounders, converters, and recyclers.

#### Conclusion:

Our stewardship engagement affirmed that the company's PLA initiative is a well-thought-out strategic diversification with meaningful environmental benefits and solid financial underpinnings. The project combines a strong moat, first-mover advantage, policy support, and high-impact applications across sectors. Based on the company's credible execution roadmap, regulatory alignment, and deep investment in sustainable materials, we decided to increase our holding in the company.

## Case Study 4: Understanding the Preparedness for Nuclear Energy as a means of Non-Fossil Energy Source in India

### Introduction:

We met the nuclear team of one of the largest power companies in India. We wanted to understand the evolving role in India's nuclear energy landscape, amid the country's strategic push to diversify its energy mix and enhance energy security. With India aiming to reach 100 GW of nuclear capacity by 2047, the company has emerged as a key player, bringing its execution strength, financial capability, and experience in large-scale infrastructure to nuclear energy.

### Engagement Process and Discussions:

India's nuclear journey has been shaped by self-reliance, especially post the technology denial regime following Pokhran-I, which drove indigenous development under leading nuclear institutions in India. The stabilization of PHWR (Pressurized Heavy Water Reactor) technology led to scalable 220 MW and 700 MW reactors, recently operational at sites like Kakrapar and Rawatbhata. India currently operates 24 reactors with 8.2 GW capacity, with 6.8 GW under construction and another 7 GW planned, aiming for 22.5 GW by 2031–32 and 100 GW by 2047.

Company has entered nuclear energy through partnerships and JVs, focusing on fleet-mode construction of 700 MW PHWRs at Mahi Banswara. These efforts aim to reduce per MW costs (currently ₹18–21 crore/MW) and targeting a levelized cost of ₹6–7/unit—slightly above thermal power but with long-term viability due to low fuel costs and high plant life (60+ years). Company is investing ₹42,000 crore in a 2.8 GW Kudankulam project using Russian PWRs, benefitting from bulk procurement and economies of scale, bringing the cost down to ₹15 crore/MW. However, nuclear projects face unique challenges, particularly the delayed signing of PPAs. This is due to regulatory uncertainties, long gestation periods (7–10 years), evolving tariffs, and state discoms' reluctance to commit to long-term nuclear power purchases.

To address supply chain limitations, company and India's largest nuclear operator are developing a vendor ecosystem through clear capacity roadmaps and pre-feasibility studies at potential sites. The engagement revealed that only ~50% of identified sites typically move to execution, reflecting challenges in land acquisition, site suitability, and environmental approvals. It is working with manufacturers and regulatory agencies to streamline these processes.

Company's entry also marks a shift in private sector participation in nuclear energy. Previously restricted to equipment supply under the Atomic Energy Act, new JV structures to allow operational roles, though ownership eventually rests with India's nuclear operator. Fuel supply remains a critical bottleneck—India currently imports ~50% of its uranium, with local production managed by Indian Uranium Company and fuel rods fabricated at the Nuclear Fuel Complex in Hyderabad. The company is also investing in thorium R&D and reprocessing technologies to align with India's long-term three-stage nuclear program.

### Conclusion:

Our engagement with the company, helped us gain more clarity regarding how nuclear energy landscape will evolve in the country and company's plan to foray into increasing nuclear energy capacity to support the base load power as thermal power retires, in near future. However, we found that nuclear energy will take time to evolve in the country. We continue to engage with the company to understand on the evolving landscape on nuclear energy.

## Case Study 5: Engagement with a battery manufacturer on upcoming Li Ion Battery facility

### Introduction:

The Indian energy storage sector is undergoing a transformation, driven by evolving mobility patterns, rising electrical loads in modern vehicles, and the gradual shift towards electrification. One of the companies is emerging as an important player in this transition, with a dual focus on advanced lead-acid batteries and lithium-ion innovation. Historically governed through a joint venture with a global battery leader, governance practices have progressively matured over the years. A generational leadership shift is also underway, with younger family members assuming operational roles and the founder moving into public life. The company's continued investments in capacity expansion, technology partnerships, and global market reach reflect a deliberate and future-facing growth strategy.

### Engagement Process and Discussions:

The company's competitive positioning within the telecom, UPS, and solar inverter battery markets also underscores its diversification across energy applications. It holds a 40% share in the ₹2,800 Cr telecom battery market and leads the premium end of the ₹8,000 Cr UPS segment with a 50% share. Its entry into the ₹600 Cr solar inverter battery market marks another adjacent growth avenue, especially as inverter battery demand spikes cyclically due to grid reliability issues. This overlap between solar, inverter, and energy backup markets creates natural synergies for capacity utilization and market depth, particularly as grid stress may rise with increased EV adoption.

Our engagement focused on the company's strategic alignment with emerging trends and its governance transition. Discussions covered multiple dimensions: Operationally, the company manufactures ~50,000 batteries per day with 70% utilization and 90% yield, sustaining ~11% EBITDA margins. It dominates India's aftermarket segment and holds leadership in telecom and premium UPS batteries, while aggressively pursuing OEM partnerships. Efforts to localize AGM and enhanced flooded battery production cater to increased electrical loads in vehicles with start-stop systems and EV auxiliaries.

Strategically, the company's ₹9,500 Cr investment in a 16 GWh lithium-ion gigafactory aligns with anticipated EV demand. The partnership with one of the top-five global li-ion battery players, supports tech transfer for both NMC and LFP cell lines. Current plans include 2 GWh NMC by 2026 and 4–6 GWh LFP by 2027, scaling to 16 GWh by 2030–31. Simultaneously, the company has enhanced lead-acid manufacturing with stamped grid technology and is exploring bipolar batteries and 4680 formats.

Its presence in 51 countries underscore its global aspirations, while brand flexibility and capex discipline further strengthen positioning. Our dialogue also examined price competition in the OEM space, evolving risks from raw material imports, and readiness for regulations like India's Battery Waste Management Rules.

### Conclusion:

Our stewardship engagement highlighted the company's strategic clarity and operational resilience across both lead-acid and lithium-ion segments. While the lithium investment roadmap and global partnerships reflect promising long-term potential, we continue to monitor execution milestones, regulatory developments, and competitive dynamics—particularly in the OEM and export segments. Governance progress and sustainability initiatives have been noteworthy, but given the evolving technology landscape and margin pressures, we maintain a close watch on the developing ecosystem.

## Case study 6: Exploring opportunities in India's Battery Recycling Sector

### Introduction:

As part of our engagement in India's battery recycling sector, we interacted with three companies to understand how they are tackling critical mineral demand, aligning with EPR regulations, and building scalable, tech-led, and ESG-compliant recycling models.

### Engagement Process and Discussions:

The company is one of India's largest lithium-ion battery recyclers and a vertically integrated critical materials player, with operations spanning reverse logistics, diagnostics, refurbishment, recycling, and hydrometallurgical refining. It sources used batteries from OEMs, aggregators, and financiers, achieving lithium recovery rates of 85–90% and material purity of 99.9%, supported by proprietary processes and strong in-house R&D in diagnostics and traceability. With eight facilities totalling 25,000 TPA and further expansion underway in India, the UAE, and the U.S., the company aims to scale lithium, nickel refining, and cathode active material production to 20,000 TPA each. Backed by strong EBITDA margins and profitability, it is targeting a five- to tenfold revenue increase and plans to raise \$100 million ahead of a potential IPO by 2026–27, with India's evolving EPR framework and digital infrastructure seen as key growth drivers.

The second company is an innovation-led startup that transitioned from gas infrastructure to circular economy solutions. It focuses on refining black mass into battery-grade materials using a proprietary, low-temperature, zero-liquid-discharge hydrometallurgy process. This delivers high recovery yields—lithium carbonate at 99.5% purity and cobalt sulfate at 100%—while minimizing environmental impact. Although currently smaller in scale, the company plans to increase processing capacity fivefold in the near term and tenfold in the long term. A year-long shutdown due to environmental permit delays led to process improvements and increased lithium recovery from 85% to 99.5%. The company has begun EPR credit sales, which are a growing share of revenue, and is pursuing certifications to monetize carbon and water efficiency. Future strategy includes expanding its footprint, automating certificate issuance, and becoming a science-driven partner for OEMs.

The third company is one of India's most established non-ferrous recyclers, with operations across lead, aluminium, copper, and plastics. Lead remains the core revenue contributor, though the company is expanding in other segments to meet rising EPR and regulatory expectations. Lead recycling capacity has nearly doubled, and domestic sourcing has improved. The company operates a 70-country procurement network, enabled by integrated tracking software, and complies with stringent environmental and EPR norms. Despite OEMs increasingly internalizing recycling, it believes its technical expertise, international customer base, and cost efficiency make it a key third-party player. Future plans include further diversification into lithium-ion recycling, investment in new refining technologies, and capturing EPR-linked opportunities in plastics and aluminium.

### Conclusion:

The three companies represent different but complementary facets of India's emerging battery recycling ecosystem. All three are leveraging the evolving EPR mandates not just as a compliance necessity but as a strategic growth opportunity. Their efforts are helping build the critical mineral backbone required for India's clean energy transition. With tightening regulation, rising EV penetration, and growing OEM interest in traceable circularity, the battery recycling sector is poised for an upscale in the near future.

## Case study 7: Evolving engagement with a QSR company

### Introduction:

We engaged with a prominent QSR operator in India, which manages the master franchise for a leading global fast-food brand. The engagement was initially triggered through our ESG-related proxy voting process and later evolved into a deeper ESG dialogue with a senior company executive leading its sustainability initiatives.

### Initial Engagement:

Our engagement began with the aim of understanding the company's preparedness for reporting under the Business Responsibility and Sustainability Report (BRSR) framework, as well as clarifying specific voting resolutions. Proxy advisors had recommended voting against the remuneration of the executive directors due to inadequate public disclosure. Subsequently, we interacted with the company to better understand the components of the executive compensation package, including the ESOPs and the breakdown of variable pay. After receiving the necessary details, we assessed the compensation structure using our internal framework, enabling us to take an informed position and ultimately vote in favour of the resolution.

### Materiality Analysis and Best Practice Document:

The company sought our assistance in identifying ESG best practices adopted by Indian and global peers, particularly around net-zero strategies and sustainability leadership. To ensure relevance, we conducted a materiality analysis supported by a Best Practices Document referencing the SASB framework for the restaurant and hospitality sector. This helped identify priority ESG topics based on the company's operating model and stakeholder expectations. Environmental issues such as GHG emissions, energy efficiency, and packaging waste stood out, especially under growing EPR-related regulatory pressure. Social themes included food safety, nutritional transparency, employee well-being, and customer health, given the company's consumer-facing nature. Governance concerns like grievance redressal, data privacy, and vendor oversight were also material amid rising digitalisation. This formed the basis for benchmarking against domestic and global QSR peers. While the company showed intent and early progress, gaps remained in disclosure quality, third-party certification, quantitative metrics, and long-term target setting. The review also highlighted emerging practices like science-based targets, EPR tracking, and circular packaging innovations.

### Conclusion:

This engagement provided the company with an independent perspective on its ESG positioning and helped clarify investor expectations. The company acknowledged several gaps and expressed a commitment to addressing them in future sustainability reports and initiatives. The exercise highlighted critical ESG priorities for the company, presented a clear view of where peers are advancing, and outlined actionable opportunities to enhance transparency, accountability, and alignment with global ESG norms.

## Case study 8: Evolving engagement with a QSR company

### Introduction:

As part of our ESG screening and stewardship process, we conducted a detailed assessment of a mid-sized textile and garment manufacturing company to evaluate its performance across environmental, social, and governance parameters. While the company exhibits several strengths on the social and operational fronts, our assessment flagged significant governance concerns. This prompted a follow-up engagement with company representatives for further clarity.

### Engagement Process and Discussions:

The ESG assessment revealed multiple governance-related issues. There was a sequence of changes in statutory auditors, beginning with a small firm that lacked scale and later transitioning to another firm that struggled with audit complexity. Eventually, the company appointed separate auditors for tax and statutory purposes. While this was presented as a practical solution, the overall audit oversight structure appeared fragmented and lacked robustness.

The company had also experienced tensions with local regulatory authorities in the past, including allegations of excessive inspections and policy harassment, which led to the cancellation of a proposed large-scale capital expenditure plan. Although the situation had since stabilized following relocation support and incentives offered by another state government, the episode highlighted sensitivity in regulatory relationships and public communication practices—factors that contribute to governance risk.

In our engagement, we raised these concerns and received responses regarding audit changes, regulatory developments, and timelines for internal corporate restructuring and political interventions. However, despite the company's responsiveness, governance standards remained below acceptable thresholds. There was limited evidence of strong independent oversight, structured board processes, or clearly articulated long-term ESG strategy.

### Conclusion:

The case underscores the centrality of governance in ESG integration. Despite positive indicators on the social and operational dimensions, governance shortcomings—particularly around audit quality, transparency, and political alignment—represent material risks that outweigh the positives. The engagement offered valuable insight into the company's ESG posture and highlighted the importance of a well-rounded framework in long-term investment decisions. While certain explanations were provided, governance gaps persisted, ultimately contributing to a low ESG score and aided the team in taking a call on their long-term investment consideration on this company.