The Journal of Asia Entrepreneurship and Sustainability RESEARCH ARTICLE

Sustainable Investing in India: A Comparative Analysis of ESG and Conventional Mutual Fund Performance

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Abstract
Sustainable investing has gained considerable momentum in global financial markets, and India is gradually witnessing a similar shift. Environmental, Social and Governance (ESG) investing integrates ethical, social and environmental considerations with traditional financial analysis. This study examines the comparative performance of ESG mutual funds and conventional mutual funds in India over the period 2020–2025. The objective is to determine whether ESG-oriented funds are capable of delivering competitive financial returns while maintaining lower risk and promoting sustainable investment practices.
The research adopts a descriptive and analytical methodology based entirely on secondary data collected from credible financial sources such as AMFI, Value Research, Moneycontrol and fund house reports. The study evaluates the performance of selected ESG and conventional mutual funds using key financial indicators such as five-year returns, standard deviation, beta, Sharpe ratio, Treynor ratio and Total Expense Ratio (TER). These parameters provide insights into both return generation capability and risk-adjusted efficiency.
Findings indicate that conventional mutual funds generally outperform ESG funds in terms of higher average returns and risk-adjusted measures during the selected period. However, ESG funds demonstrate lower volatility and relatively stable performance, highlighting their potential as long-term investment instruments. The results suggest that while ESG investing is still evolving in India, it offers meaningful opportunities for investors seeking sustainable and responsible portfolios.
The study concludes that a balanced investment approach combining both conventional and ESG mutual funds may provide investors with optimal financial performance while supporting broader sustainability goals. The research contributes to the growing academic discourse on responsible investing and provides insights for investors, policymakers and financial institutions in India.

Keywords: Sustainable Investing, ESG Funds, Conventional Mutual Funds, Risk-Adjusted Performance, Responsible Investment, Indian Financial Markets

Introduction

Over the last decade, the global investment landscape has undergone a major transformation with the emergence of sustainable and responsible investing. Traditionally, investment decisions were primarily driven by financial considerations such as return, risk and liquidity. However, growing concerns about environmental degradation, social inequality and corporate governance failures have encouraged investors to consider non-financial factors as part of their decision-making process.

Environmental, Social and Governance (ESG) investing represents a framework that integrates sustainability and ethical considerations into financial analysis. Environmental factors evaluate how companies manage natural resources, climate risks and pollution. Social factors examine issues such as employee welfare, diversity, human rights and community engagement. Governance factors focus on corporate leadership, transparency, board structure and ethical practices.

Globally, ESG investing has gained substantial popularity, with institutional investors increasingly incorporating sustainability metrics into their portfolio strategies. According to several international financial reports, ESG assets have crossed trillions of dollars worldwide. India has also witnessed growing awareness of responsible investing, especially after regulatory encouragement from the Securities and Exchange Board of India (SEBI), which introduced Business Responsibility and Sustainability Reporting (BRSR) guidelines.

Within the Indian mutual fund industry, ESG funds are a relatively new category compared to conventional equity funds. Conventional mutual funds primarily aim to maximize financial returns by investing in companies across various sectors based

on market performance and growth potential. In contrast, ESG mutual funds select companies that demonstrate strong environmental responsibility, social commitment and governance standards.

Despite the increasing interest in ESG investing, many investors remain uncertain about its financial performance relative to traditional investments. Some believe that restricting investment choices to sustainable companies may limit potential returns, while others argue that companies with strong ESG practices are better positioned for long-term stability and risk management.

In this context, the present study attempts to examine whether ESG mutual funds in India can deliver competitive returns compared to conventional mutual funds. By analyzing risk-return characteristics and efficiency measures, the research seeks to provide empirical evidence regarding the effectiveness of sustainable investing in the Indian financial market.

Review Of Literature

Previous research on socially responsible investing has produced mixed findings regarding the performance of ESG-based investment strategies. Several scholars have examined whether ethical investment restrictions affect portfolio returns and risk profiles.

Mittal (2020) conducted an empirical study comparing socially responsible mutual funds with traditional funds over a ten-year period. The research used risk-adjusted measures such as the Sharpe ratio and Treynor ratio and concluded that socially responsible funds performed similarly to conventional funds without significant underperformance.

Mukhopadhyay (2023) examined the performance of ESG indices relative to traditional indices in the Indian stock market. The study found that ESG indices often demonstrated lower volatility and competitive returns during both stable and turbulent market periods, suggesting that sustainable investing can offer resilience during economic uncertainty.

Edward, Tamilmaran and Reddy (2023) analyzed the correlation between ESG mutual fund returns and equity mutual funds in India. Their results indicated that there was no statistically significant difference in average returns between the two categories, implying that ESG funds can be viable alternatives to conventional investments.

Daga et al. (2025) studied portfolio construction differences between ESG and conventional funds. Their analysis revealed that many ESG portfolios resemble traditional funds in terms of sector allocation and market capitalization, indicating that ESG integration may not drastically alter investment composition.

Agarwal and Rastogi (2025) investigated the relationship between Total Expense Ratio (TER) and fund performance. Their research highlighted that higher expense ratios negatively affected net asset value growth in both ESG and traditional funds, emphasizing the importance of cost efficiency.

Although these studies provide valuable insights, most research has focused on limited performance indicators or earlier time periods. The rapid expansion of ESG investing after 2020, particularly in emerging markets like India, necessitates updated research that evaluates both financial performance and risk efficiency. The present study addresses this gap by providing a comparative analysis of ESG and conventional mutual funds using multiple financial parameters over a recent five-year period.

Objectives Of The Study

The primary purpose of this study is to evaluate and compare the performance, risk characteristics, and efficiency of Environmental, Social, and Governance (ESG) mutual funds and Conventional (non-ESG) mutual funds in the Indian financial market over the period 2020–2025.

The study seeks to understand whether ESG-based investments provide competitive returns and acceptable risk–return trade-offs relative to traditional investment strategies.

Specific Objectives

1.To assess and compare the financial performance of top ESG and Conventional mutual funds in India based on quantitative parameters such as 5-year returns, standard deviation, beta, Sharpe ratio, Treynor ratio, and total expense ratio (TER).

2.To examine the risk and volatility profile of ESG and Conventional funds by analyzing statistical indicators (standard deviation, beta, and risk level) to determine the relative market sensitivity of both investment categories.

3. To investigate the role of ESG integration in influencing fund stability, sustainability, and long-term investor confidence compared with conventional investment approaches.

4. To identify the superior investment alternative between ESG and Conventional mutual funds based on overall performance metrics, risk-return balance, and consistency over the five-year period (2020–2025).

5. To provide research-based recommendations for investors, portfolio managers, and policymakers on the strategic inclusion of ESG factors in investment decision-making, considering the evolving landscape of responsible investing in India.

Scope Of The Study

General purpose- This study aims to find the best investment option among ESG and conventional mutual funds.

Geographical location – The study is limited to only India, not any other country.

Time duration – The study is limited to a time frame of last 5 years – based on the availability and accuracy of data.

Financial projections– Using this report, financial projections will be generated for the 2 years. These projections will help forecast future trends, highlight opportunities for growth, subject to external factors are not volatile enough.

Limitations Of The Study

Dependence on Secondary Data: The study is based entirely on secondary data obtained from sources such as AMFI, Value Research Online, and The Economic Times. Hence, the accuracy and reliability of findings depend on the authenticity and completeness of these databases.

Limited Sample Size: Only the top 5 ESG and top 5 conventional mutual funds were analyzed, which may not represent the entire mutual fund universe in India.

Time Frame Constraint: The study covers a specific period (2020–2025), which may not capture long-term cyclical variations or the effects of economic shocks before or after this window.

Dynamic Market Conditions: Mutual fund performance is influenced by market volatility, interest rates, and global events. These external factors may change rapidly, affecting fund behavior beyond what the study can control.

Exclusion of Qualitative Factors: Non-financial factors such as fund management style, investor sentiment, and ESG scoring methodology were not deeply analyzed due to data limitations.

Research Methodology

This research adopts a descriptive and analytical design to compare the performance of ESG mutual funds and conventional mutual funds in India.

Data Sources

The study relies exclusively on secondary data obtained from reliable financial platforms and institutional reports. Major sources include:

- Association of Mutual Funds in India (AMFI)
- Value Research Online
- Moneycontrol and ET Money
- Fund house factsheets and annual reports
- Financial newspapers and journals

Sample Selection -A purposive sampling technique has been used to select mutual funds for analysis. The study includes five ESG mutual funds and five conventional equity mutual funds that have consistent data availability for the period 2020–2025.

Period of Study- The analysis covers a five-year period from April 2020 to March 2025. This timeframe captures the rapid growth phase of ESG investing in India following the global pandemic and increased focus on sustainability.

Analytical Tools

To evaluate fund performance, the study uses several quantitative indicators:

1. Five-Year Return (CAGR)
Measures the average annual return generated by the mutual fund.

2. Standard Deviation
Indicates the volatility of fund returns and overall risk.

3. Beta
Measures sensitivity of fund returns relative to the market benchmark.

4. Sharpe Ratio
Evaluates excess return per unit of total risk.

5. Treynor Ratio
Measures excess return relative to systematic market risk.

6. Total Expense Ratio (TER)
Represents the annual cost of managing the mutual fund.

These tools enable comprehensive comparison between ESG and conventional mutual funds in terms of profitability, volatility and cost efficiency.

Data Analysis And Discussion

The comparative analysis focuses on evaluating performance and risk characteristics of ESG mutual funds relative to conventional mutual funds.

Conventional Funds – Table 1

Rank	Fund (Conventional)	5-yr Return (%)	Std. Dev (%)	Beta	Sharpe Ratio	Treynor Ratio	Risk Level	Entry +E-xit Load	TER (%)	Benchmark

1	Nippon India Large Cap Fund	~24.4	~11.9–13.3 (reported)	~0.92–0.98	~1.15	~0.31	Moderately High	Nil + 1% (short holding period)	~0.74–1.51 (varies by source)	BSE/Nifty large-cap TRI
2	ICICI Prudential Bluechip Fund	~21.9–23.1	~11.8–12.1	~0.88–0.92	~1.09–1.22	~0.29–0.31	Moderately High	Nil + 1% (if redeemed <1yr)	~0.86–1.66 (source dependent)	Nifty 100 TRI
3	HDFC Large Cap Fund	~21.0–22.5	~12.6–13.0	~0.91–0.99	~1.15	~0.28–0.32	Moderately High	Nil + 1% (if redeemed <1yr)	~1.10–1.20	Nifty 100 / Nifty 500 TRI
4	Invesco India Largecap Fund	~21.8–22.2	~13.4	~1.01	~0.75–0.82	~0.27–0.29	Moderately High	Nil + standard exit load	~0.75–1.12	S&P BSE 100 TRI
5	Canara Robeco Bluechip Equity Fund	~21.3	~11.8	~0.93	~1.30	~0.26	Moderate	Nil + standard exit load	~1.05	Nifty 100 TRI

Conventional Fund – Table 2

Metric	Average
Average Return	22.1%
Average Standard Deviation	12.54%
Average Beta	0.93
Average Sharpe	1.13
Average Treynor	0.29
Average Total Expense Ratio	1.12%

ESG Funds – Table 1

Rank	Fund (ESG)	5-yr Return (%)	Std. Dev (%)	Beta	Sharpe Ratio	Treynor Ratio	Risk Level	Entry+Exit Load	TER (%)	Benchmark

1	ICICI Prudential ESG Exclusionary Strategy Fund	18.1	12.2	0.9	1.05	0.115	Very High	Nil + 1% if redeemed <12m	1.3	Nifty 500 TRI (used)
2	SBI Magnum / SBI Equity ESG Fund	17.3	11.9	0.88	0.65	0.074	Very High	Nil + 1% if redeemed <12m	1.25	Nifty 500 TRI (used)
3	Quantum (Quant) ESG Best-in-Class	16	12.3	0.9	0.66	0.073	Very High	Nil + 1% if redeemed <12m	1.05	Nifty 500 TRI (used)
4	Axis ESG Integration Strategy Fund	14.4	11.9	0.83	0.67	0.081	Very High	Nil + 1% on units >10% within 12m	1.25	Nifty 500 TRI (used)
5	Kotak ESG Opportunities Fund*	14.8	12.8	0.91	0.48	0.053	Very High	Nil + 1% if redeemed <12m	1.25	Nifty 500 TRI (used)

*Kotak ESG Fund launched in December 2020, so the data provided for it is of 4 years(2021-25)

ESG Funds – Table 2

Metric	Average (Top 5 ESG Funds)
Average Return	16.45%
Average Standard deviation	12.22%
Average Beta	0.88
Average Sharpe ratio	0.70
Average Treynor ratio	0.08
Average TER(Total Expense Ratio)	1.22%

Data Interpretation

Return Analysis:

The average 5-year return for ESG funds (16.45%) is lower than that of Conventional funds (22.10%). This suggests that ESG funds, though growing, have not yet matched the return potential of traditional large-cap equity schemes. The difference reflects the conservative and screened nature of ESG portfolios.

Risk and Volatility:

ESG funds exhibit slightly lower standard deviation (12.22%) and beta (0.88) compared to Conventional funds (Std. Dev 12.54%, Beta 0.93), indicating lower volatility and market sensitivity. This shows that ESG funds offer better downside protection during market fluctuations.

Risk-Adjusted Returns:

The Sharpe ratio and Treynor ratio are notably higher for Conventional funds (1.13 and 0.29) than for ESG funds (0.70 and 0.08). This means traditional funds currently deliver higher compensation for each unit of risk, reflecting more effective risk–return efficiency.

Cost Efficiency (TER):

The Total Expense Ratio of ESG funds (1.22%) are slightly higher than that of Conventional funds (1.12%), primarily due to additional screening and sustainability evaluation costs. However, the difference is narrowing as ESG fund management becomes more efficient.

Risk Level:

All ESG schemes fall under the "Very High Risk" category, while conventional funds are rated as "Moderately High." This indicates that ESG funds, despite lower volatility, are still classified conservatively due to their equity-heavy structure

and limited diversification history.

Load and Benchmark Interpretation:

Both categories generally maintain Nil entry load and 1% exit load if redeemed within one year, conforming to SEBI norms. ESG funds commonly use the Nifty 500 TRI or Nifty ESG TRI benchmarks, whereas Conventional funds align with Nifty 100 TRI or BSE 100 TRI

Comparative Findings

Parameter	ESG Funds (Average)	Conventional Funds (Average)	Interpretation / Remarks
5-Year Return (%)	16.45%	22.10%	Conventional funds generated higher absolute returns, reflecting stronger market-linked performance and maturity. ESG funds, though stable, are still evolving in alpha generation.
Standard Deviation (%)	12.22%	12.54%	ESG funds show slightly lower volatility, indicating steadier performance and better downside risk protection.
Beta	0.88	0.93	ESG funds are less sensitive to market fluctuations, implying better defensive characteristics during downturns.
Sharpe Ratio	0.7	1.13	Conventional funds offer better risk-adjusted returns; ESG funds provide lower excess return per unit of total risk.
Treynor Ratio	0.08	0.29	Conventional funds deliver higher return per unit of systematic (market) risk, showing stronger alpha creation.
Risk Level (SEBI)	Very High	Moderately High	ESG funds are still classified as "Very High" due to concentrated equity exposure and new market category.
Entry + Exit Load	Nil + 1% (if redeemed <1 year)	Nil + 1% (if redeemed <1 year)	Both categories follow SEBI's standard load structure; cost impact on investors is nearly identical.
Total Expense Ratio (TER)	1.22%	1.12%	ESG funds have a marginally higher expense ratio, reflecting additional ESG screening and sustainability compliance costs.
Benchmark	Nifty 500 TRI / Nifty ESG TRI	Nifty 100 TRI / BSE 100 TRI	ESG funds follow broader benchmarks integrating sustainability; conventional funds align with market-cap weighted indices.
Overall Performance	Moderate, stable, sustainability-driven	High-performing, market-driven	Conventional funds outperform in return and efficiency, while ESG funds excel in ethical focus and stability.

The comparative analysis reveals that:

- Conventional funds outperform ESG funds in overall returns and risk-adjusted metrics.
- ESG funds demonstrate lower volatility and slightly better stability during market corrections.
- The cost differential (TER) between the two categories is minimal, showing growing efficiency in ESG fund management.

ESG funds may appeal more to investors with long-term sustainability goals and moderate return expectations, while conventional funds suit investors seeking higher growth and proven historical performance.

Conclusion And Recommendations

The findings of this study indicate that ESG mutual funds and conventional mutual funds both offer valuable opportunities for investors, though their strengths differ. Conventional mutual funds have historically delivered higher returns and stronger risk-adjusted performance, making them attractive for investors seeking aggressive growth.

However, ESG funds demonstrate relatively lower volatility and promote responsible investment

practices that align financial goals with environmental and social objectives. As regulatory frameworks, corporate sustainability practices and investor awareness improve, ESG funds are likely to gain greater prominence in the Indian financial market.

For investors, the optimal strategy may involve a diversified portfolio combining both conventional and ESG mutual funds. This approach allows investors to benefit from strong market returns while supporting companies that prioritize sustainability and ethical governance.

Policymakers should continue strengthening ESG reporting standards and transparency requirements to ensure credibility of sustainability data. Financial institutions and asset management companies should also enhance investor education regarding the long-term benefits of sustainable investing.

Future research may extend this analysis by incorporating larger samples, longer time horizons and advanced econometric models to better understand the evolving relationship between financial performance and sustainability in emerging markets like India.

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