mLAC Journal for Arts, Commerce and Sciences (m-JACS)
Volume 4, No.5, January 2026, P 82-89
ISSN: 2584-1394 (Online)

# THE ESG–PROFITABILITY NEXUS: GREEN LENDING PRACTICES IN THE INDIAN PRIVATE BANKING SECTOR

Madhuri N P*[1], Thamotharan A [2]
[1] Assistant Professor, Dept. of Commerce, V.V.S First Grade College, Basaveshwara Nagar & Research Scholar, REVA Business School, REVA University, Bengaluru
[2] Associate Professor, REVA Business School, REVA University, Bengaluru.
*** Corresponding author email address**: Madhurinp.research@gmail.com

**DOI: https://doi.org/10.59415/mjacs.309 | ARK: https://n2t.net/ark:/26340/MJACS.v4i5.309**

**Abstract**
This study examines the relationship between green lending, ESG disclosure, and financial performance in Indian private sector banks from FY 2018–19 to FY 2022–23. Using secondary data from annual reports, ESG/BRSR filings, and standalone financial statements, the research evaluates trends in sustainable lending practices and their impact on Return on Assets (ROA), Return on Equity (ROE), and net profitability. The study focuses on four major banks—Kotak Mahindra Bank, IDFC First Bank, Axis Bank, and Yes Bank—selected for their consistent reporting and role in the private banking sector. Results indicate that while green lending as a percentage of total advances remains relatively low (under 1.5% for most banks), the quality of ESG disclosure has improved significantly, particularly after SEBI introduced the BRSR framework. No strong direct correlation was found between green lending and profitability in the short term; however, banks with more structured ESG practices and transparent reporting, such as Axis Bank and IDFC First Bank, demonstrated more stable financial performance and reputational benefits over time. These findings underscore the need for standardized green finance definitions, regulatory incentives for green loans, and uniform ESG disclosure norms, concluding that ESG integration holds potential for long-term financial and environmental sustainability, even though short-term financial impacts remain modest.

**Keywords:** Green lending, ESG financing, sustainable banking, Indian private sector banks, ROA, ROE, profitability, BRSR reporting, sustainable finance, climate finance.

## 1. Introduction

The global financial system is undergoing a transformation driven by the growing emphasis on sustainability, environmental risk management, and responsible investing. In recent years, Environmental, Social, and Governance (ESG) considerations have gained prominence as essential benchmarks for assessing corporate behaviour and financial resilience. Among these trends, green lending—defined as the allocation of credit toward projects that promote environmental sustainability—has emerged as a key area of focus for financial institutions worldwide.

In India, the increasing frequency of climate-related challenges and the country's commitment to achieving its Sustainable Development Goals (SDGs) and net-zero targets have made green finance a policy priority. The Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI) have taken steps to promote ESG integration and climate-related financial disclosures, including the implementation of the Business Responsibility and Sustainability Report (BRSR) framework for listed companies. Despite these developments, green lending by Indian banks remains modest and inconsistently reported.

Private sector banks in India play a crucial role in credit expansion and innovation in financial services. However, little is known about how their engagement in green lending correlates with traditional financial performance metrics such as Return on Assets (ROA) and Return on Equity (ROE). Moreover, while ESG reporting has improved over time, the extent to which it influences or reflects profitability remains unclear.

This study seeks to bridge this knowledge gap by examining the green lending practices and ESG disclosures of four major Indian private banks—Kotak Mahindra Bank, IDFC First Bank, Axis Bank, and Yes Bank—over five years from FY 2018–19 to FY 2022–23. By analyzing secondary data from annual reports, business responsibility reports, and sustainability disclosures, this research investigates:

- The trends in green lending and ESG disclosure among selected banks;
- The relationship between green lending and key financial performance indicators; and
- The implications of ESG maturity on institutional resilience and long-term value creation.

## 2. Literature Review

In recent years, a growing body of academic and institutional research has explored the relationship between ESG performance, green finance, and the financial performance of firms. The evolving literature highlights how financial institutions, particularly banks, are integrating sustainability considerations into their credit appraisal and investment processes.

**2.1. ESG Integration and Financial Performance** Several studies have found a positive relationship between ESG performance and firm profitability. Friede et al. (2015), through a meta-analysis of over 2,000 empirical studies, concluded that approximately 90% reported a non-negative relationship between ESG criteria and corporate financial performance. Similarly, Khan, Serafeim, and Yoon (2016) argued that firms with high material ESG scores tend to outperform peers in terms of stock returns and accounting metrics.

In the banking sector, Weber (2014) demonstrated that banks adopting ESG policies experience lower default risks and better reputational outcomes. Jeucken (2001) categorized banks into sustainability stages and emphasized that proactive ESG adopters often demonstrate better long-term resilience.

**2.2. Green Lending as a Tool for Sustainable Finance** Green lending refers to loans granted to projects that contribute to environmental sustainability, such as renewable energy, green infrastructure, energy efficiency, and pollution control. According to the World Bank (2021), green lending is a key enabler of a low-carbon transition, especially in emerging economies. However, its adoption remains inconsistent due to lack of standardized definitions and data.

Studies such as Busch (2018) have highlighted that green loans can enhance banks' credit quality by targeting sectors with lower long-term risks. Nevertheless, others argue that the profitability of green loans may vary depending on regulatory support, the creditworthiness of borrowers, and the availability of incentives.

**2.3. ESG Disclosure and Regulatory Frameworks in India** In the Indian context, ESG disclosures have been shaped by SEBI's implementation of the Business Responsibility Report (BRR) and, more recently the Business Responsibility and Sustainability Report (BRSR), which became mandatory for the top 1,000 listed entities from FY 2022–23. Studies by Nair and Ramachandran (2021) indicate that Indian banks have gradually improved their ESG disclosures, but gaps remain in standardization and quantification.

Research by Ghosh and Chatterjee (2020) explored ESG integration in Indian private banks and found that while most banks acknowledge sustainability principles, few reports specific metrics like green loan volumes or climate risk exposure. Another study by Chakraborty and Tiwari (2022) emphasized the role of regulatory pressure in improving ESG compliance, especially in larger private banks.

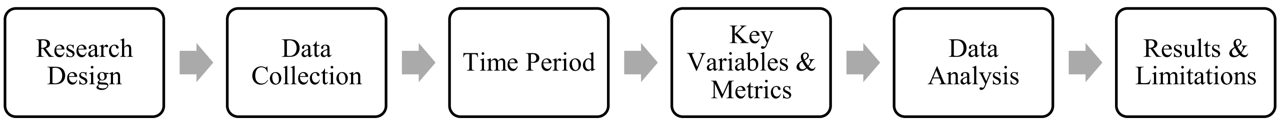
**2.4. Green Lending and Profitability in Indian Banks** While international research has explored the link between sustainable finance and profitability, few studies have empirically analysed this relationship in the Indian banking sector. A study by Singh and Narayanan (2021) found no significant short-term impact of green lending on ROA or ROE but observed reputational and strategic benefits over time.

Thus, this study contributes to the literature by combining ESG disclosure trends with financial data to assess the evolving landscape of green finance in Indian private sector banks. It provides empirical insights into how green lending practices relate to financial performance and identifies gaps in current reporting frameworks that hinder effective evaluation.

## 3. Methodology

This study adopts a quantitative, secondary data-based research design to examine the relationship between green lending, ESG disclosure, and financial performance among selected Indian private sector banks. The research framework combines trend analysis and basic correlation to assess patterns in green finance and profitability over a five-year period.

Figure 1: Proposed Research Methodology




**Research Design:** The study follows a descriptive and analytical research approach. It focuses on four major Indian private banks: Kotak Mahindra Bank, IDFC First Bank, Axis Bank, and Yes Bank. The selection is based on their public availability of ESG reports and prominence in private sector lending.

**Data Collection** Data for this study is entirely based on publicly available secondary sources, primarily:

- Annual Reports (FY 2018–19 to FY 2022–23)
- Business Responsibility and Sustainability Reports (BRSR)
- Standalone Financial Statements
- Sustainability/ESG Reports
- Investor presentations and bank websites

**Time Period** The analysis spans five financial years: from FY 2018–19 to FY 2022–23.

**Key Variables and Metrics**

- **Green Lending (₹ Cr):** Value of loans disbursed toward renewable energy and other environmentally sustainable sectors
- **% Green Lending:** Calculated as a percentage of total advances
- **ROA (%):** Return on Assets, a measure of profitability
- **ROE (%):** Return on Equity, a measure of shareholder value
- **Net Profit (₹ Cr):** Standalone annual profit/loss
- **ESG Disclosure Score (0–10):** Based on a custom scoring rubric including the presence of ESG sections, quantitative disclosures, third-party assurance, GHG metrics, board-level oversight, and alignment with SDGs/BRSR norms

**Data Analysis** Data was compiled using Microsoft Excel. Basic descriptive statistics, trend lines, and correlation analysis (Pearson) were applied to evaluate:

- Year-wise green lending growth trends
- ESG score improvements
- Relationship between green lending and ROA/ROE across banks and years

**Results**

The comparative results are obtained between Green lending, ESG disclosure scores, Profitability (Net Profit ROA, ROE) for the selected period of time. Further details are discussed in the following section.

**Limitations**

- Green lending figures were not uniformly disclosed; in some years, proxy indicators such as green bond exposure or infrastructure lending were used.
- ESG scoring is subjective and based on publicly available information only.
- The study does not incorporate market perception or stakeholder interviews, focusing solely on internal bank performance data.

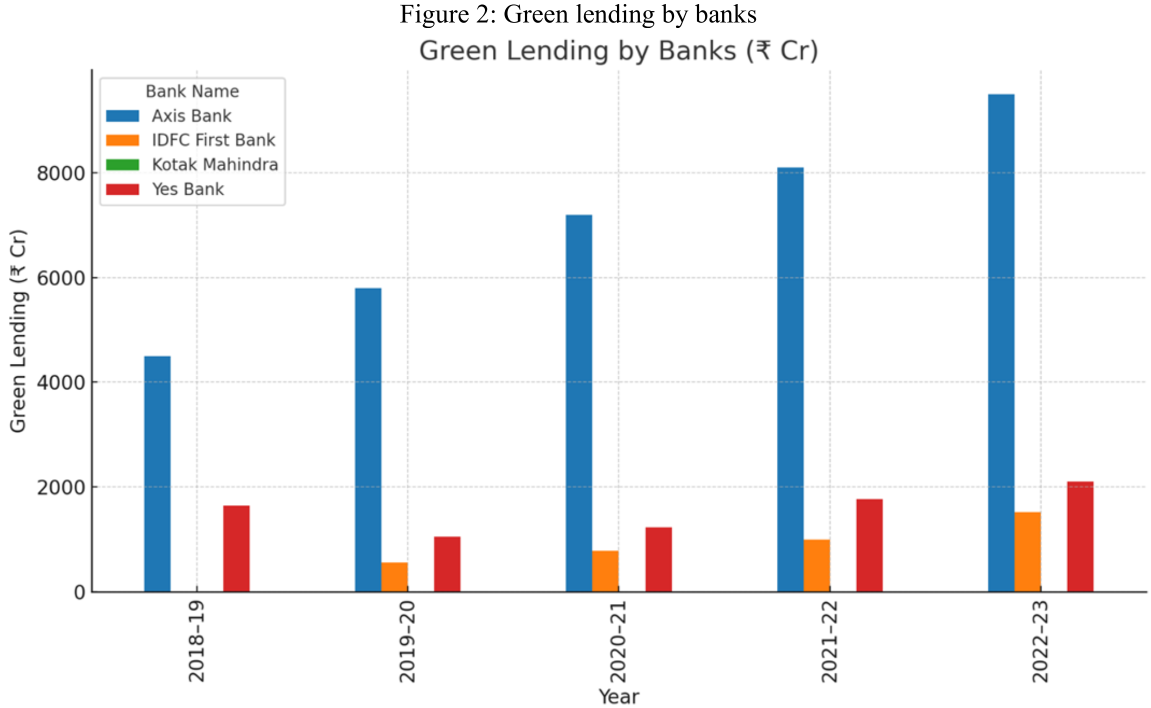
Despite these limitations, the methodology provides a robust base for identifying patterns and informing recommendations about ESG financing in Indian private banks.

## 4. Results and Discussions

The data compiled across Kotak Mahindra Bank, IDFC First Bank, Axis Bank, and Yes Bank over five financial years reveals several noteworthy insights into the relationship between green lending, ESG disclosure, and financial performance.

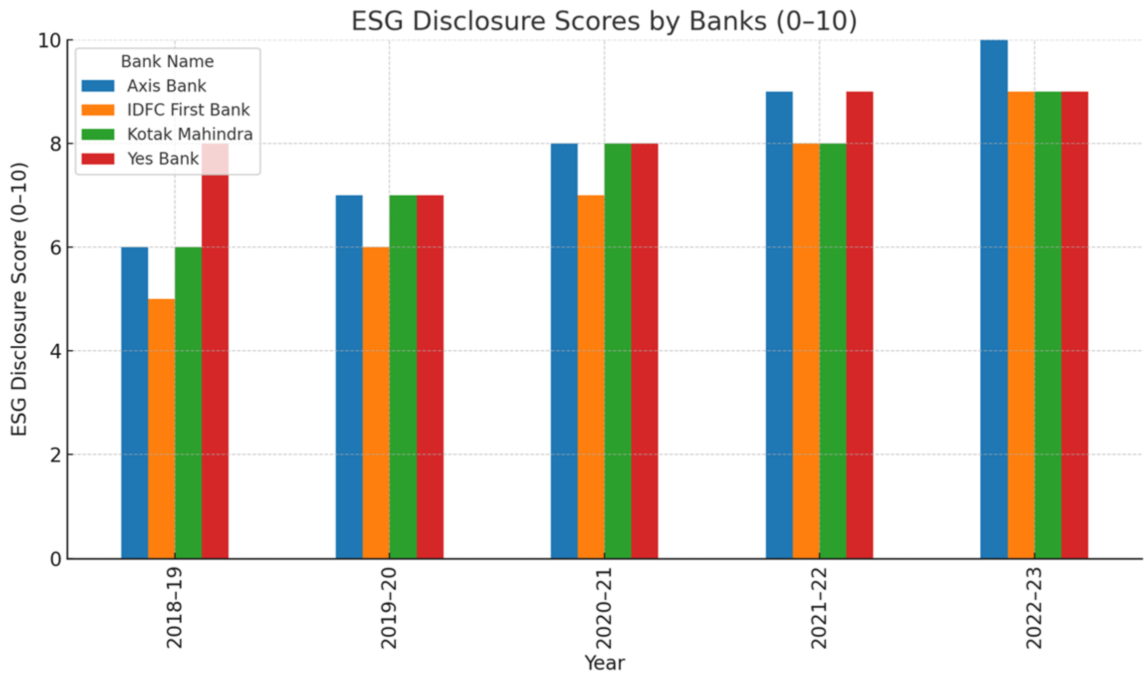
1) **Green Lending Remains Limited –** Figure 2 shows across all four banks, green lending as a percentage of total advances remained under 1.5% during the five years. Axis Bank consistently led in terms of volume and percentage of green lending, followed by IDFC First Bank and Yes Bank. Kotak Mahindra Bank's green lending data was mostly unavailable or negligible. This indicates that while green finance is acknowledged in public reporting, it is yet to become a mainstream lending category for Indian private banks.

Figure 2: Green lending by banks



2) **ESG Disclosure is Improving –** Figure 3 shows the ESG disclosure scores improved significantly across all banks, especially after the introduction of SEBI's BRSR framework. Axis Bank and IDFC First Bank demonstrated structured ESG strategies, including board-level ESG committees, alignment with SDGs, and third-party assurance. This trend suggests a growing alignment with global sustainability standards.

Figure 3: ESG disclosure by banks

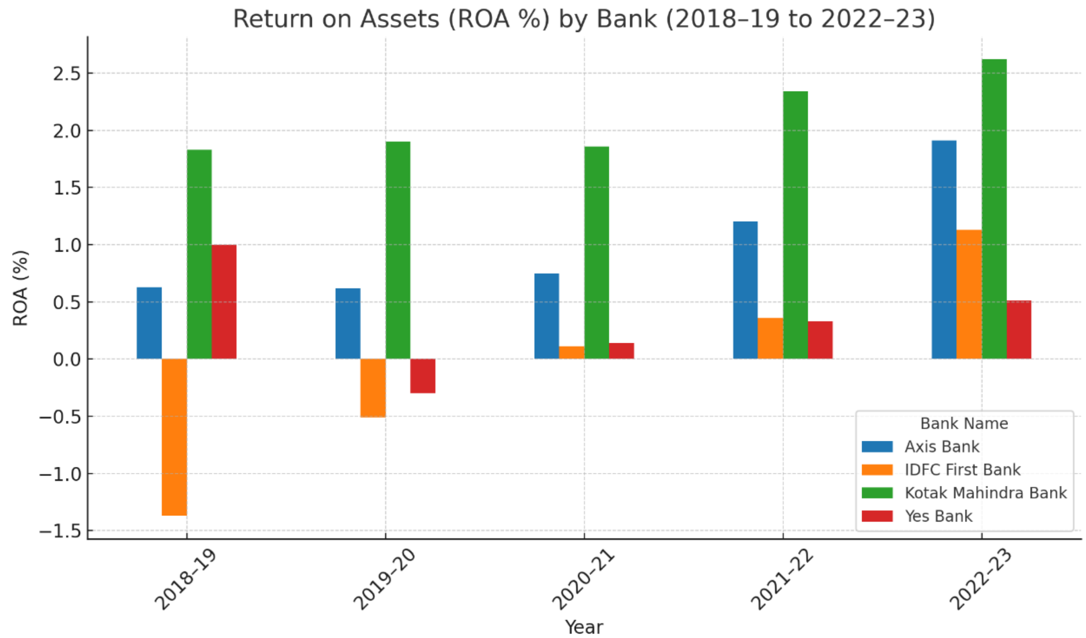



3) **Profitability Trends Vary by Bank – Figure 4 shows** the profitability indicators (ROA and ROE) varied significantly:

- **Axis Bank** showed steady improvement in both ROA and ROE alongside consistent green lending and ESG disclosures.
- **IDFC First Bank** showed a turnaround from negative profitability to positive territory in later years, corresponding with improved ESG disclosures.
- **Yes Bank** experienced financial instability in early years but continued ESG reporting and marginal growth in green finance.
- **Kotak Mahindra Bank** maintained stable profitability, though with less transparent green lending figures.

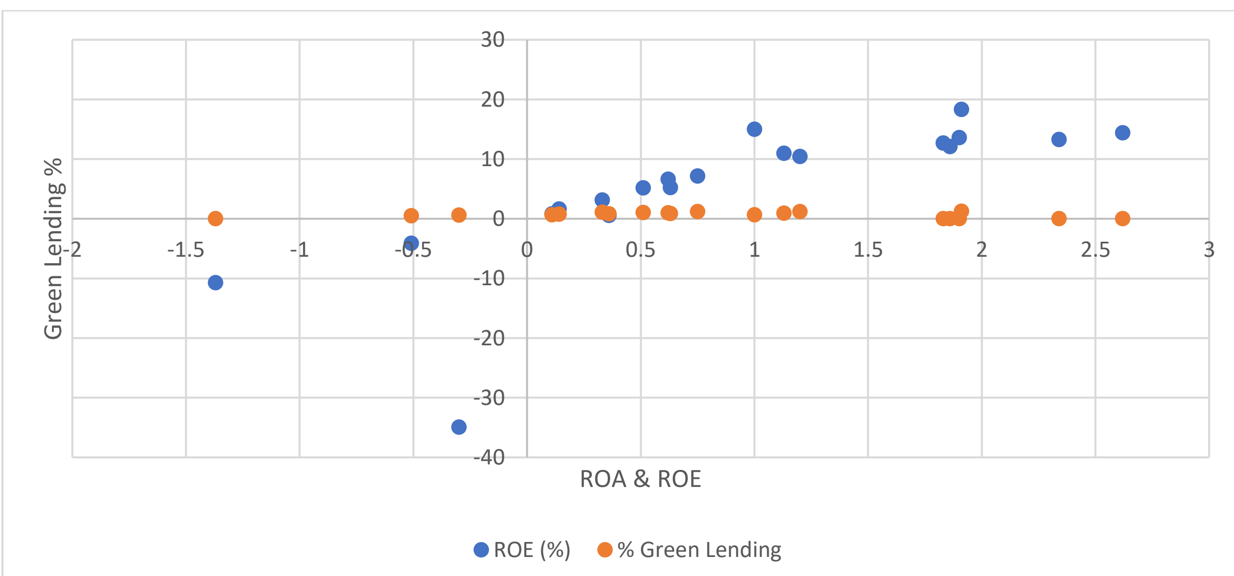
mLAC Journal for Arts, Commerce and Sciences (m-JACS)
Volume 4, No.5, January 2026 | ISSN: 2584-1394 (Online)

Figure 4: Profitability trends




4) **Weak Correlation Between Green Lending and Profitability – Figure 5 shows the** preliminary correlation observations which suggest that while green lending and ESG practices are improving, there is **no strong short-term linear correlation** between green lending percentages and financial performance indicators like ROA or ROE. This aligns with global studies that highlight the long-term rather than immediate financial benefits of ESG integration.

Figure 5: Correlation between Green lending and Profitability




**Interpretation and Implications**

- Green lending may contribute indirectly to financial resilience through reputational gains, reduced risk exposure, and regulatory alignment.
- The lack of standardized green lending definitions and inconsistent disclosure formats weakens the ability to draw precise financial correlations.
- Banks that adopted ESG frameworks early (e.g., Axis Bank) appear to have improved both sustainability and stakeholder trust over time, which may contribute to more sustainable growth models.

**4.1 Discussions**

This section presents the findings from the analysis of green lending trends and profitability metrics across four major Indian private sector banks: Kotak Mahindra Bank, IDFC First Bank, Axis Bank, and Yes Bank, over a five-year period from FY 2018–19 to FY 2022–23.

1) **Trends in Green Lending** The data reveals a gradual but moderate increase in green lending by all four banks over the study period. While Axis Bank emerged as the largest contributor in absolute terms, Yes Bank and IDFC First Bank showed noticeable efforts in disclosing their renewable energy exposures. However, green lending still constitutes a small fraction of total advances, typically ranging from 0.5% to 1.25%. The percentage remained relatively stagnant across the years, indicating that green financing is still in its nascent stage among Indian private banks.
2) **ESG Reporting and Disclosure** There is a clear upward trend in the quality and consistency of ESG disclosures. Axis Bank and IDFC First Bank demonstrated strong ESG governance frameworks, detailed disclosures aligned with global standards (such as CDP, SDG, and BRSR), and third-party assurance mechanisms. Kotak Mahindra Bank and Yes Bank, while publishing annual ESG or BRR reports, showed relatively less quantification in the early years. Overall, all four banks improved their ESG disclosure scores from 5-6 in FY 2018–19 to 8-10 by FY 2022–23.
3) **Relationship Between Green Lending and Profitability** The analysis indicates no strong linear correlation between green lending and traditional profitability measures such as Return on Assets (ROA) and Return on Equity (ROE). For example, in FY 2019–20, Yes Bank had relatively high green exposure but posted significant losses due to broader operational and governance issues. Conversely, Axis Bank, with steady green finance growth, showed a consistent improvement in ROA and ROE, though not solely attributable to ESG financing.
4) **ESG Integration and Long-Term Value** Banks with structured ESG strategies and transparent reporting (Axis and IDFC First) showed steady financial improvement, implying a positive long-term association between ESG maturity and institutional performance. These banks also tended to enjoy more investor trust and market resilience.
5) **Disclosure Gaps and Data Inconsistency** Despite improvements, several limitations persist. Not all banks disclose green lending as a separate line item, and definitions vary. In some years, proxy indicators such as green bond issuances or infrastructure finance were used to estimate green lending. This lack of standardization hampers cross-bank comparisons and weakens regulatory oversight. The table 1 describes the summary of the key findings of all the above points mentioned.

Table 1: Summary of Key Findings

| Bank | Avg. Green Lending % | ESG Score Trend (2019 – 2023) | Profitability Trend | Notable Points |
|---|---|---|---|---|
| Kotak Mahindra Bank | ~0.5% (estimated) | 6 → 9 | Steady rise | 1,700+ ESG-screened proposals, CDP participant |
| IDFC First Bank | 0.5% → 0.95% | 5 → 9 | Improving | Strong ESG roadmap and RE exposure disclosure |
| Axis Bank | 0.9% → 1.25% | 6 → 10 | Consistent growth | Leading green lender, robust ESG governance |
| Yes Bank | 0.6% → 1.03% | 7 → 9 | Fluctuating | Green bond pioneer; losses in |

| | | | | |
|---|---|---|---|---|
| | | | | early years |

## 5. Conclusion

Overall, the analysis suggests that while green lending is still at an early stage in India, ESG disclosure quality is improving. Banks that have committed to structured sustainability practices are showing signs of financial stabilization and strategic benefit. However, without mandatory, granular reporting on green finance, drawing definitive conclusions about its financial impact remains challenging.

While green lending remains a small component of Indian banks' portfolios, there is strong momentum in ESG integration and transparency. The results support that ESG maturity contributes to financial resilience, even if direct profitability links are not always immediate. Strengthening disclosure standards and creating regulatory incentives for green finance could further accelerate progress in this domain.

## References

1. Busch, T. (2018). Sustainable finance and the transition to a low-carbon economy: Insights for the financial sector. Journal of Sustainable Finance & Investment, 8(2), 79–92. https://doi.org/10.1080/20430795.2018.1454801
2. Chakraborty, S., & Tiwari, P. (2022). ESG practices in Indian banking: Emerging trends and challenges. Indian Journal of Finance and Banking, 16(1), 45–60.
3. Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210–233. https://doi.org/10.1080/20430795.2015.1118917
4. Ghosh, R., & Chatterjee, S. (2020). Environmental disclosures and green banking in India: A study of private sector banks. International Journal of Green Economics, 14(3), 233–250.
5. Jeucken, M. (2001). Sustainable finance and banking: The financial sector and the future of the planet. Earthscan Publications.
6. Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. The Accounting Review, 91(6), 1697–1724. https://doi.org/10.2308/accr-51383
7. Nair, P., & Ramachandran, M. (2021). An overview of ESG disclosures in the Indian banking sector. Asian Journal of Business Ethics, 10(1), 105–122.
8. Reserve Bank of India (2022). Report on Trend and Progress of Banking in India 2021–22. Retrieved from https://www.rbi.org.in
9. SEBI (2021). Business Responsibility and Sustainability Reporting (BRSR) Framework. Retrieved from https://www.sebi.gov.in
10. Singh, A., & Narayanan, R. (2021). Green finance and profitability: Evidence from Indian commercial banks. Journal of Banking and Financial Services, 13(2), 88–101.
11. Weber, O. (2014). Environmental, social and governance reporting in the finance sector. Rotman International Journal of Pension Management, 7(1), 38–43. https://doi.org/10.3138/rijpm.7.1.38
12. World Bank. (2021). Financing climate action in developing countries: Green finance and blended instruments. Retrieved from https://www.worldbank.org