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**THE ESG TURN IN PRIVATE EQUITY: FROM CSR TO
COMPLIANCE IN INDIAN TRANSACTIONS**- Sidharth Puri & Himanshi Handuja¹**ABSTRACT**

The paper critically examines the evolution of Environmental, Social, and Governance (ESG) factors in Indian private equity (PE) transactions, tracing the shift from voluntary corporate social responsibility (CSR) obligations to a deal-critical compliance regime. It analyses how growing pressure from limited partners (LPs), new regulatory frameworks like SEBI's Business Responsibility and Sustainability Reporting (BRSR), and a recognition of long-term value creation have compelled PE investors to integrate ESG across due diligence, post-investment monitoring, and deal structuring. The article further explores emerging strategies such as the use of carbon credits for monetization and strategic divestitures for risk mitigation, situating these practices within the broader legal and economic context of India. By drawing on industry reports and regulatory developments, the paper argues that a harmonized, enforceable ESG framework is essential for nurturing a sustainable investment ecosystem that balances financial returns with responsible business practices.

Keywords: Private Equity, Mergers & Acquisitions, Environmental Social and Governance, Corporate Social Responsibility, Sustainability Reporting, Carbon Credits, Taxation, International Trade Law

I.INTRODUCTION

Private equity (PE) has historically been driven by the singular objective of maximizing financial returns, with reforms in governance and operations primarily geared toward enhancing exit valuations. In recent years, however, Environmental, Social, and Governance

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(ESG) factors have shifted from being voluntary or reputational considerations to becoming decisive elements in investment decisions. This transformation is propelled by three interrelated forces: first, growing pressure from limited partners (LPs) who are signatories to global frameworks such as the United Nations Principles for Responsible Investment (UNPRI)²; second, regulatory developments in India, such as the Securities and Exchange Board of India's (SEBI) Business Responsibility and Sustainability Reporting (BRSR) framework; and third, the recognition that ESG-compliant companies demonstrate greater resilience and long-term value creation.

In the Indian market, ESG has moved from being a "check-the-box" compliance exercise to a central feature of PE transactions. As Bain & Company's India Private Equity Report 2024 notes, LPs are increasingly imposing ESG obligations in investment agreements, reshaping due diligence, post investment monitoring, and deal structuring strategies.³ This paper explores how ESG considerations influence PE transactions in India across three critical stages—(i) due diligence, (ii) post-investment compliance, and (iii) deal structuring—while situating these developments in the broader shift from corporate social responsibility (CSR) obligations under Indian law to a more integrated ESG regime. We also examine emerging trends in carbon markets and the use of strategic divestitures as tools for ESG compliance, underscoring their growing importance in shaping the future of PE in India. The goal is to provide a comprehensive, forward-looking analysis that not only documents the current state of affairs but also anticipates the future direction of corporate governance and private equity law in India. This is a critical area for aspiring M&A and PE lawyers, as it requires a blend of legal precision, financial acumen, and a deep understanding of sustainability imperatives.

II. FROM CSR TO ESG IN INDIAN CORPORATE LAW

A. THE LIMITATIONS OF INDIA'S CSR FRAMEWORK

The statutory framework for corporate responsibility in India originated with the Companies Act, 2013, which under Section 135 made India the first country to mandate CSR spending. Companies

²U.N. Principles for Responsible Inv., *Principles for Responsible Investment*, <https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment> (last visited Sept. 3, 2025)..

³Bain & Co., *INDIA PRIVATE EQUITY REPORT 2024* (2024), <https://www.bain.com/insights/india-private-equityreport-2024>.

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meeting prescribed thresholds were required to allocate at least two percent of their average net profits from the preceding three years to CSR activities. While celebrated as a progressive step, this framework has faced criticism for being expenditure-focused rather than impact-oriented, often reducing *CSR* to philanthropic donations disconnected from governance or sustainability priorities. Reports of the High-Level Committee on CSR (2015, 2018) acknowledged that compliance was largely perfunctory, with limited evaluation of outcomes.⁴ This expenditure-driven model has been widely critiqued for its detachment from a company's core operations and its failure to address a business's direct environmental and social footprint. In many cases, it has been viewed as a form of "corporate philanthropy" rather than a strategic integration of sustainability into the business model.

B.THE PARADIGM SHIFT WITH SEBI'S BRSR

In contrast, *ESG* represents a more holistic and performance-driven framework. Unlike *CSR*, which focuses on external spending, *ESG* integrates sustainability into the internal operations and governance of companies. It evaluates how environmental stewardship, social responsibility, and governance structures directly affect long-term business viability. *ESG* thus shifts the focus from corporate charity to strategic risk management and stakeholder value creation. SEBI's introduction of the *BRSR* in 2021 marked a regulatory pivot toward *ESG*, requiring the top 1,000 listed companies to make structured sustainability disclosures. The subsequent *BRSR* Core, applicable from FY 2023–24, goes further by requiring third-party assurance of key *ESG* indicators.⁵

This regulatory shift is a direct response to both domestic and international pressures. On one hand, it addresses the perceived "greenwashing" risk, where companies make unsubstantiated claims about their environmental efforts. On the other hand, it aligns Indian companies with global standards set by international bodies, making them more attractive to foreign investors and fund managers who are signatories to frameworks like the UNPRI. While unlisted companies—typically the focus of PE investment—are outside the mandate, PE investors have begun to extend *BRSR*-style requirements to their portfolio companies contractually,

⁴Ministry of Corporate Affairs, *Report of the High Level Committee on Corporate Social Responsibility 2018* (Sept. 13, 2019), https://www.mca.gov.in/Ministry/pdf/CSRHLC_13092019.pdf.

⁵SEBI, *Business Responsibility and Sustainability Reporting by Listed Entities*, SEBI/HO/CFD/CMD-2/P/CIR/2021/562 (May 10, 2021), https://www.sebi.gov.in/legal/circulars/may-2021/business-responsibility-and-sustainability-reporting-bylisted-entities_50096.html.

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anticipating both regulatory evolution and investor expectations. This trajectory reflects a broader question posed in Indian corporate law: has the country evolved beyond *CSR*'s compliance-driven model to a robust *ESG* framework capable of addressing climate and governance challenges? For PE, this shift is especially significant, as investors play a dual role in shaping governance norms and ensuring that *ESG* contributes to long-term exit value.

III. ESG INTEGRATION IN PRIVATE EQUITY TRANSACTIONS

The integration of *ESG* into PE deals in India can be understood across three interconnected stages: due diligence, post-investment compliance, and deal structuring.

A. DUE DILIGENCE

Conventional PE due diligence focuses on financial and legal risks, but *ESG* has added new dimensions. Investors now examine environmental compliance—such as adherence to pollution norms and exposure to climate-related liabilities—alongside social factors like labour practices, workplace diversity, and community engagement. Governance considerations, including board independence, transparency, and anti-corruption measures, also receive closer scrutiny.

This new layer of scrutiny is not merely a formality; it is a critical component of risk and valuation assessment. A company with a poor environmental track record may face future litigation or regulatory penalties. Similarly, a history of labour disputes or poor working conditions can lead to supply chain disruptions and reputational damage, eroding a company's long-term value. PE funds often treat a company's *CSR* record as a proxy for *ESG* maturity, but more sophisticated investors apply global benchmarks such as the International Finance Corporation (IFC) Performance Standards and the SASB Materiality Map, and, in cross-border contexts, the OECD Guidelines for Multinational Enterprises.⁶ This reflects the growing importance of harmonizing Indian transactions with international sustainability standards. Legal advisors in this space play a critical role in conducting these reviews, which may involve:

⁶International Finance Corporation, *IFC Performance Standards on Environmental and Social Sustainability* (Jan. 1, 2012), <https://www.ifc.org/content/dam/ifc/doc/2010/2012-ifc-performance-standards-en.pdf>; IFRS Found., *SASB Standards: Exploring Materiality*, <https://sasb.ifrs.org/standards/materiality-map/> (last visited Sept. 3, 2025); Organisation for Economic Co-operation and Development, *OECD Guidelines for Multinational Enterprises* (2009), https://www.oecd.org/content/dam/oecd/en/publications/reports/2009/02/oecd-guidelines-for-multinational-enterprises_g1gha9bd/9789264060326-en.pdf.

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- **Environmental Audits:** Reviewing environmental permits, waste management practices, and assessing the risk of climate-related physical and transition risk.
- **Social and Labour Audits:** Scrutinizing employment contracts, labour relations, modern slavery risk in the supply chain, and policies on diversity, equity, and inclusion.
- **Governance Reviewers:** Examining the company's internal controls, anti-bribery and corruption policies, and the effectiveness of its broad oversight, particularly on ESG matters.

B.POST-INVESTMENT COMPLIANCE

Once investments are completed, PE funds increasingly impose *ESG*-linked obligations on portfolio companies. These include requirements for periodic sustainability reporting in line with SEBI's *BRSR*, even if not legally mandated, and the creation of *ESG* oversight committees within boards. Key performance indicators (KPIs) are commonly used, linking business performance to measurable environmental or social targets such as carbon intensity reductions or workforce diversity ratios. In response to greenwashing risks, some PE investors now require independent third-party assurance of *ESG* disclosures. This trend reflects not only reputational concerns but also contractual safeguards against misrepresentation in investment agreements. The legal mechanisms for enforcing these commitments are evolving. Lawyers for the PE fund will often draft shareholder agreements and investment pacts that contain specific, measurable *ESG* targets. These targets can be tied to milestones, with financial penalties or adjustments if the company fails to meet them. For example, a PE fund might mandate that a portfolio company reduce its water consumption by a certain percentage within two years, with the CEO's bonus linked to this achievement. The enforcement of these clauses is a key area of legal practice, requiring ongoing monitoring and, in some cases, the use of independent auditors or consultants to verify compliance.

C.DEAL STRUCTURING

ESG considerations are also reshaping transaction documentation. Investors increasingly negotiate *ESG*-linked covenants requiring compliance with sustainability targets within defined timelines. Earnout structures tied to *ESG* KPIs are gaining traction, particularly in renewables and climate-fintech sectors. Warranties and indemnities now often cover

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undisclosed *ESG* liabilities, and some transactions utilize warranty and indemnity (W&I) insurance to mitigate risks. In cross-border deals, *ESG* clauses may also mandate compliance with foreign sustainability regulations applicable to LPs or potential acquirers.

These mechanisms demonstrate that *ESG* integration is no longer a peripheral concern but a deal critical factor shaping valuation, compliance, and risk allocation in PE transactions. A lawyer specializing in M&A must now be adept at drafting clauses that not only address traditional financial risks but also new *ESG*-related liabilities. This includes representations and warranties concerning a company's compliance with environmental laws, its labour practices, and the integrity of its *ESG* data. The rise of sustainability-linked loans in India, where interest rates are tied to *ESG* performance, further demonstrates how financial and legal structures are adapting to this new reality. For example, JSW Steel's \$1 billion sustainability-linked loan (SLL) in 2021, with interest rates tied to emission reduction targets, is a landmark precedent in the Indian market.⁷

D.TAX AND CROSS-BORDER CONSIDERATIONS

For aspiring M&A and PE lawyers, a critical part of dealmaking involves navigating the tax and international trade implications of *ESG*. These factors can significantly impact transaction costs, compliance burdens, and long-term value.

- **Tax Incentives and Liabilities:** Governments worldwide, including in India, are introducing tax incentives to encourage green investments. A lawyer must be able to identify and structure a deal to capitalize on these benefits. For example, investments in renewable energy projects may qualify for accelerated depreciation or tax credits.⁸ Conversely, a company with a poor environmental record may face new tax liabilities, such as carbon taxes or penalties for non-compliance with pollution norms. During due diligence, a lawyer must assess these potential liabilities, as they directly affect a company's valuation.

⁷JSW Steel Ltd., *JSW Steel becomes the first company in the steel sector globally to issue a USD denominated Sustainability Linked Bond* (Press Release, Sept. 16, 2021).

⁸Income Tax Act, 1961, No. 43, Acts of Parliament, 1961 (India); Central Electricity Regulatory Commission (Terms and Conditions for Tariff Determination from Renewable Energy Sources) Regulations, 2020.

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- **International Trade Law and Supply Chains:** Global trade agreements are increasingly incorporating environmental and social standards. A prime example is the European Union's Carbon Border Adjustment Mechanism (CBAM), which imposes a tariff on imported goods with a high carbon footprint.⁹ For an Indian PE-backed company that exports to Europe, compliance with CBAM is not optional—it's a requirement for market access. An M&A lawyer must, therefore, scrutinize a target's supply chain and operations to determine its vulnerability to such international regulations. This involves:
 - **Mapping the Supply Chain:** Identifying key suppliers and their environmental and labour practices.
 - **Analysing Trade Agreements:** Understanding how international trade law, including bilateral and multilateral treaties, impacts the company's export strategy.
 - **Advising on Mitigation:** Recommending operational changes or technology investments to reduce the company's carbon footprint and avoid future tariffs. This legal and strategic foresight is crucial for creating a "future-proof" portfolio company.

These tax and trade considerations are not peripheral; they are deal-critical issues that require a specialized legal skill set.

IV. EMERGING ESG TOOLS IN PRIVATE EQUITY

Beyond conventional due diligence and structuring, two powerful tools—carbon credits and divestiture—are gaining prominence in the PE toolkit for enhancing *ESG* performance. The strategic use of these tools is a key differentiator for PE firms seeking to create and realize value in an ESG-conscious market.

A. CARBON CREDITS IN PETRANSACTIONS

The voluntary carbon market in India has seen significant growth, with the government establishing the Indian Carbon Market (ICM) to meet its net-zero goals outlined in its Nationally Determined Contributions (NDCs). The Energy Conservation (Amendment) Act, 2022 provides the legal basis for this framework, empowering the central

⁹Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism, 2023 O.J. (L 130) 52.

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government to specify a Carbon Credit Trading Scheme (CCTS).¹⁰ The Bureau of Energy Efficiency (BEE) has been tasked with developing a framework for Carbon Credit Certificates (CCCs).¹¹ For PE investors, carbon credits are not just a tool for offsetting emissions but also a financial asset that can be used to improve a portfolio company's valuation and attract climate-conscious buyers. Investors now analyse a target company's carbon footprint, its potential to generate or purchase carbon credits, and the regulatory risks associated with its emissions profile.

Case Study: Monetizing Decarbonization in a Manufacturing Acquisition

A leading Indian PE fund, "Greenstone Capital," is considering the acquisition of a mid-sized, publicly unlisted cement manufacturer. During due diligence, Greenstone's legal and technical advisors identify that while the company is profitable, its energy-intensive operations result in a significant carbon footprint, making it a high-risk asset in the eyes of international LPs and future buyers.

To address this, Greenstone's legal team devises a post-acquisition strategy centered on a capital expenditure to install a waste heat recovery system and other energy efficiency measures. The lawyers draft a new shareholders' agreement that includes a specific covenant mandating the management to implement these systems within 18 months of the deal's closing. The CEO's long-term incentive plan is directly tied to achieving a minimum reduction in carbon intensity.

Once the system is operational and the company has reduced its emissions, Greenstone's legal and finance teams advise on leveraging this improvement to access green financing. The company successfully secures a **Sustainability-Linked Loan (SLL)**, similar to the landmark \$1 billion loan secured by JSW Steel in 2021.¹² The interest rate on this loan is directly tied to the company's ability to meet specific, pre-defined emission reduction targets. The reduction in the cost of capital not only increases the company's profitability and enterprise value but also enhances its ESG profile, allowing Greenstone to attract a higher valuation from a strategic buyer with ambitious decarbonization goals, ultimately leading to a more profitable exit.

¹⁰The Energy Conservation (Amendment) Act, 2022, No. 51, Acts of Parliament, 2022 (India).

¹¹Ministry of Power & Bureau of Energy Efficiency, *Draft Carbon Credit Trading Scheme* (Mar. 27, 2023).

¹²*Supra* note 6.

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B.DIVESTITURE AND SPLIT-OFFS FOR ESG COMPLIANCE

Divestiture, or the sale of a non-core business unit, has traditionally been used to streamline operations or unlock value. However, it is increasingly being used as a strategic tool to manage *ESG* risks. A PE fund may acquire a diversified company and then divest a business unit with poor environmental performance or labour practices, thereby improving the *ESG* profile of the remaining portfolio. A strategic divestiture is often a necessary measure to avoid reputational damage or to attract capital from funds with a strict *ESG* mandate. The lawyer's role here is crucial, not only in structuring the sale but also in mitigating legal and financial risks associated with the divestiture itself.

Case Study: The Strategic Divestiture of a 'Brown' Asset

"Himalaya Capital," a global PE firm with a strong *ESG* mandate from its sovereign wealth fund LPs, acquires a diversified Indian conglomerate with interests in textiles, consumer goods, and a small, but highly polluting, coal-fired power plant. Himalaya's due diligence team, led by a specialist M&A lawyer, identifies the power plant as a significant long-term liability. The plant faces a high risk of future litigation for environmental non-compliance, and its poor labour safety record has led to several regulatory fines. The lawyer's analysis reveals that the cost of remediation and the reputational risk associated with the plant would negatively impact the valuation of the entire conglomerate upon exit. To address this, Himalaya Capital's lawyers structure a "split-off." The chemical plant and all its associated liabilities are spun off into a new, separate legal entity, which is then sold to a specialized industrial buyer. This legal maneuver serves a dual purpose:

1. **Risk Mitigation:** It legally separates the high-risk, non-core asset from the core, high-growth businesses. The buyer of power plant assumes all environmental and social liabilities, protecting Himalaya Capital's investment in Fusion Industries.
2. **Value Creation:** The remaining entity, Fusion Industries, now has a "cleaner" *ESG* profile. Its valuation is no longer penalized by the brown asset, allowing Himalaya to focus its resources on modernizing the textile and consumer goods divisions, enhancing their sustainability, and ultimately commanding a premium price from a global buyer who would have otherwise been deterred by the power plant.

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These strategies demonstrate that ESG is not just about compliance but is also a driver of value creation and risk management. For an M&A lawyer, understanding and executing these complex, ESG-driven transactions is a key skill.

V. JUDICIAL AND REGULATORY DEVELOPMENTS ON ESG

The theoretical shift from CSR to a more integrated ESG framework is now being solidified by concrete judicial and regulatory action. The courts and regulatory bodies in India are increasingly holding companies accountable for their environmental and social claims, making it clear that ESG is not just "soft law" but a source of legal obligation and liability.

A. LANDMARK JUDGMENTS ON CORPORATE GOVERNANCE AND GREENWASHING

While a consolidated body of case law on greenwashing is still emerging in India, several recent judgments and regulatory actions provide a clear precedent for future enforcement. The legal landscape is moving from a reactive to a proactive model, where regulators are actively scrutinizing corporate claims.

- **M.C. Mehta v. Union of India (Oleum Gas Leak case, 1987),¹³** was the ignition point and expanded strict liability principles for hazardous industries.
- **Ridhima Pandey v. Union of India (2025)¹⁴:** Although this case is still ongoing, the Supreme Court of India's observations are a landmark development. The court recognized the need for a meticulous examination of existing environmental statutes "with a view to incorporating climate-centric mandates." This judicial intervention, which impleaded eight Indian ministries, signifies that the courts are now willing to interpret environmental and governance laws through the lens of climate change and corporate responsibility. It lays the groundwork for future litigation against companies whose actions or inactions contribute to environmental degradation.
- **Misleading Advertisements and Greenwashing:** Recent actions by the Central Consumer Protection Authority (CCPA) have set a clear precedent for holding companies

¹³*M.C. Mehta v. Union of India*, AIR 1987 SC 1086.

¹⁴*Ridhima Pandey v. Union of India*, Civil Appeal No. 388/2021 (Supreme Court of India, order dated Feb. 21, 2025).

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accountable for unsubstantiated environmental claims. The CCPA has issued guidelines that define greenwashing and require companies to substantiate their "green" claims with clear, non-technical, and verifiable data. While these actions are rooted in consumer protection law, their implications for corporate disclosure are significant. They demonstrate that regulators will not tolerate vague terms like "eco-friendly" or "natural" without robust, third-party verified evidence. For a PE investor, this means that any ESG claims made by a portfolio company must be thoroughly vetted to avoid regulatory penalties and reputational damage.¹⁵

- **SEBI's Proactive Stance:** SEBI has also been at the forefront of tackling greenwashing, particularly in the financial markets. Its circulars on green debt securities prevent issuers from making misleading claims, forcing them to disclose the specific taxonomies and standards their projects align with. This proactive stance ensures that the capital markets, particularly the burgeoning green finance sector, operate with integrity.¹⁶

B.THE EVOLVING ROLE OF SEBI AND OTHER REGULATORS

The regulatory environment is shifting from a passive, disclosure-based model to an active, enforcement-driven one. SEBI, the CCPA, and other bodies are increasingly working in concert to ensure that corporate governance and sustainability are taken seriously.¹⁷ For a PE fund, this means that:

1. **Due Diligence is more critical than ever:** A failure to identify a target company's greenwashing risks or climate liabilities could result in a regulatory penalty, lawsuit, or a forced divestiture down the line.
2. **Contractual clauses must be robust:** Indemnity clauses and representations and warranties need to be meticulously drafted to protect the acquiring PE fund from post-acquisition liabilities arising from past ESG misconduct.

VI.CHALLENGESANDTHEROADAHEAD

¹⁵Central Consumer Protection Authority, *Guidelines for the Prevention and Regulation of Greenwashing*, 2024, No.CCPA/28/2023-CCPA-(Reg) (Oct. 15, 2024).

¹⁶Securities and Exchange Board of India, *Dos and don'ts relating to green debt securities to avoid occurrences of greenwashing*, SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/020 (Feb. 3, 2023).

¹⁷SEBI, *Disclosure Requirements for Issuance and Listing of Green Debt Securities*, CIR/IMD/DF/51/2017 (May 30, 2017).; *Id.* at 15.

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A. Challenges in the Indian Context

While India's ESG journey is gaining momentum, several challenges remain, which must be addressed for the PE ecosystem to mature sustainably.

1. Risk of Greenwashing

The rapid adoption of ESG has created risks of superficial compliance, or "greenwashing." Companies may make ESG claims without meaningful operational changes, exposing PE investors to reputational and legal risks. This is particularly problematic in a disclosure-based regulatory regime where the onus is on companies to provide accurate information. Inadequate verification of ESG disclosures can result in liability for misrepresentation, a risk that lawyers must increasingly advise on.¹⁸

2. Fragmentation of Standards

ESG reporting in India lacks uniformity. While SEBI's BRSR applies to the top 1,000 listed companies, private companies face fragmented voluntary frameworks, increasing costs and reducing comparability.¹⁹ This fragmentation creates a significant challenge for PE firms that need consistent, reliable data to perform due diligence and track portfolio company performance. The absence of a single, standardized framework complicates cross-portfolio comparisons and makes it difficult for firms to measure the tangible impact of their ESG initiatives.

3. Limited Reach to Unlisted Companies

Most PE targets are mid-market or unlisted entities outside the regulatory scope of BRSR, creating enforcement gaps. This makes contractual obligations and private governance frameworks critical.²⁰ In the absence of a public mandate, the onus is on the PE firm to build and enforce an ESG culture from the ground up, a task that requires significant resources and expertise.

4. Short-Term Investment Cycles

PE's typical 4–7 year investment horizon often conflicts with long-term ESG goals, such as climate initiatives, which require sustained capital. This creates tension between exit-

¹⁸SEBI, *Consultation Paper on ESG Disclosures, Ratings and Investing* (Feb. 2023), <https://www.sebi.gov.in/>.

¹⁹*Supra* note 3.

²⁰SEBI, Circular on Business Responsibility and Sustainability Reporting, SEBI/HO/CFD/CMD-2/P/CIR/2021/562 (May 10, 2021).

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driven returns and sustainability commitments.²¹ The challenge for PE firms is to demonstrate that ESG investments, such as a large-scale decarbonization project or a supply chain restructuring, can generate financial value within the typical fund lifecycle.

B.POLICY RECOMMENDATIONS AND THE ROLE OF THE M&A/PELAWYER

As an aspiring M&A and PE lawyer, you recognize that the legal profession is uniquely positioned to address these challenges. The path forward requires a collaborative approach involving regulators, investors, and legal practitioners.

1. **Unified ESG Standards:** India could harmonize *ESG* reporting for both listed and unlisted entities, adapting SEBI's *BRSR* Core for private markets. This would enable comparability and reduce compliance costs.²² A key policy recommendation is for SEBI to consider a phased approach, perhaps mandating a simplified *BRSR*-like framework for companies that cross a certain revenue or employee threshold, bringing PE-backed startups into the fold. This would not only enhance transparency but also prepare these companies for a potential IPO or a larger M&A transaction.
2. **Integrating CSR into ESG Strategy:** Rather than treating *CSR* as a separate compliance requirement, PE-backed companies should channel *CSR* spending toward projects advancing *ESG* KPIs, such as renewable energy and community climate adaptation.²² This integration would move *CSR* from a perfunctory compliance exercise to a strategic tool for value creation, aligning a company's social impact with its core business goals.
3. **Contractual Enforcement and Assurance:** Shareholder agreements should include *ESG* covenants with third-party assurance mechanisms. This balances evolving *ESG* norms with enforceable obligations.²³ The legal community has a vital role here in developing a new standard for *ESG* clauses that are both flexible and robust, protecting investors while allowing companies the autonomy to innovate.
4. **LP-GP Alignment:** *ESG* reporting should be formalized at the fund-formation stage to align limited partners (LPs) and general partners (GPs) around sustainability

²¹*Supra* note 2.

²²*Supra*
note

3.²²*Id.*

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commitments.²³ This alignment, often driven by legal agreements and fund-level policies, is crucial for ensuring that ESG is a top-down priority.

5. **Leveraging Global Trends:** India should draw from the EU's Corporate Sustainability Reporting Directive and the International Sustainability Standards Board (ISSB) standards to anticipate global ESG compliance.²⁴ This global perspective is crucial for Indian companies and PE firms that are increasingly operating on a world stage.

As an M&A/PE lawyer, your role would be to advise clients on these complex issues, from drafting innovative ESG clauses and conducting thorough due diligence to navigating the evolving regulatory landscape. You would be a key player in not only facilitating deals but in shaping the future of sustainable corporate practice in India.

VII. Conclusion

The evolution from CSR to ESG marks a fundamental transformation in Indian corporate governance and private equity practice. Whereas CSR was often expenditure-driven and compliance-focused, ESG requires companies to embed sustainability into their core operations, governance, and risk management. For PE investors, this shift is not merely reputational—it has become deal-critical, influencing due diligence, contractual structures, compliance monitoring, and exit valuations. The emerging use of carbon credits and strategic divestitures further solidifies ESG as a tool for both risk management and value creation. The recent actions of Indian courts and regulators signal a clear move toward legal accountability for ESG performance, transforming it from a "soft law" concept into a source of tangible liability. While challenges such as greenwashing, fragmented standards, and the mismatch between PE horizons and ESG goals remain, the trajectory is clear: ESG is set to become a central pillar of India's PE ecosystem. The road ahead requires harmonized ESG disclosure standards, stronger contractual enforcement, and alignment with global norms. By leveraging both regulatory reform and market innovation, India has the opportunity to create a sustainable investment ecosystem where financial returns and responsible business practices converge.

²³Supra note 2.

²⁴Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 Dec. 2022 (Corporate Sustainability Reporting Directive).



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