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From Greenwashing to Green Winning: ESG Disclosure Quality and Investor Trust in Indian Private Sector Banks

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***Abstract*— In the wake of increasing stakeholder emphasis on sustainability, Indian private sector banks are progressively integrating Environmental, Social, and Governance (ESG) considerations into business practices. The quality of ESG disclosure practices shapes the investor perceptions and financial outcomes of any sector, especially within the framework of Indian Private Sector Banks, and still remains underexplored. This paper aims to evaluate the relationship between ESG disclosure quality and investors' trust in the Indian Private Sector Banks and to examine the effect of ESG disclosure quality on profitability. The study adopts a quantitative research approach, using both primary and secondary data. For the purpose, the top five private sector banks, viz., HDFC Bank, Axis Bank, ICICI Bank, IndusInd Bank and Kotak Mahindra Bank have been selected. The secondary data utilizes ESG scores and profitability data from annual reports of concerned banks and the CRISIL database for the period between 2020-2025. The primary data have been collected from a sample of 300 bank customers by adopting convenience sampling method using a well-structured questionnaire. Statistical techniques like Correlation and Panel Data Analysis have been employed to test the relationship among the variables. Factor Analysis has been applied to group the variables used to measure investors' trust. The analysis revealed that the selected five private sector banks show a strong ESG performance, and it is related to the profitability of the selected banks. Further, it is found that 65 per cent of the sample respondents have a positive outlook on ESG disclosure of their banks. The factor analysis extracted five factors from 19 statements used to measure the impact. The results are expected to provide empirical evidence that higher-quality ESG disclosures not only enhance investor trust but also contribute positively to the financial performance of private sector banks.**

***Keywords*—ESG disclosure quality, investor trust, financial performance, profitability, greenwashing risk, Sustainable Development Goals, sustainable finance.**

I. INTRODUCTION

The global financial landscape has undergone a paradigm shift with the increasing integration of Environmental, Social, and Governance (ESG) principles into corporate strategy and investment decision-making (Sun et al, 2024).

These principles were once viewed as supplementary to financial analysis. But now, ESG factors are considered as an essential index of corporate resilience, ethical integrity and sustainable value generation. This transformation, particularly in Indian Private Sector Banks, has been driven by multiple factors such as, enhanced regulatory requirements, increased investor awareness and escalating necessity for alignment of financial system with Sustainable Development Goals (SDGs).

The Indian Private Sector banks serve as a key driver in capital mobilisation and channelizing the resources towards economic development. The stakeholders of these banks, especially the institutional investors and rating agencies undergo an intense scrutiny of their governance, transparency and environmental responsibility. ESG reporting has become more prevalent and credible over concerns of green washing, the practice of giving misleading and unsubstantiated claims regarding their sustainability performance. Investor trust may be affected due to poor-quality ESG reporting, which impacts both market sentiments and access of banks to long-term funding.

The quality of ESG disclosure practices encompasses transparency, reliability, completeness and alignment with some established reporting standards, viz., "Global Reporting Initiative (GRI), Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB)". These factors are important determinants in influencing the investors' perception. Global market evidences suggest that robust ESG disclosure can strengthen the investors' trust, increased stock market valuation and enhance the profitability by reducing the capital costs and improving stakeholders' value creation. Yet, the limited research has been undertaken in the Indian context, especially in private sector banks to examine these relationships.

Under this context, the present study seeks to examine the three interrelated dimensions, such as the association between the ESG disclosure quality and investors' trust in the Indian private sector banks and the impact of ESG disclosure quality on the profitability.

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Hence, the current research aims to contribute both to academic discourse and practical policy-making, offering actionable insights for bank executives, regulators and sustainability advocates, who strive to balance profitability with ethical responsibility.

Conceptual Framework - The study seeks to investigate the underlying relationships of **ESG Disclosure Quality** with *Investors' Trust, Profitability,* and *Reduced Greenwashing Risk,* which in turn drive **Long-Term Investment** as presented in Figure I.

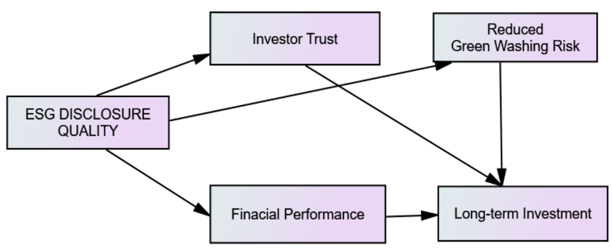

FIGURE I CONCEPTUAL FRAMEWORK

II. PROBLEM STATEMENT

The profound change occurring in the Indian banking industry is increasing the adoption of ESG reporting as a part of their corporate communication strategy. this shift is driven by investors' demand for sustainable finance, a transparent regulatory environment and the need to align with global sustainability standards. While ESG disclosure has increased quantitatively, there remain concerns about its quality and its actual impact on the decision-making of stakeholders.

One of the most pressing challenges is the prevalence of **greenwashing,** where organisations present an exaggerated or misleading image of their sustainability performance. Given the absence of a consistent ESG reporting framework in India, banks often adopt selective disclosure practices, omitting unfavourable information or relying on vague, non-quantifiable statements. Such inconsistencies raise questions about whether ESG disclosures truly influence investor trust or are merely a compliance exercise without substantive value.

In Indian context, the association of ESG reporting quality and bank's profitability remains underexplored. Some international evidence shows that credible ESG reporting can enhance firms' valuation, reduce risk and attract long-term investment.

III. REVIEW OF PREVIOUS STUDIES

Chand Tandon (2025) investigated the relationship that exists between the Environmental, Social, and Governance (ESG) quality and profitability of commercial banks in India. The study utilised panel data from 2015 to 2024 and analysed ESG disclosure from 30 leading Indian banks, examined their effect on key financial indicators like ROA, ROE and Tobin's Q. The findings revealed a significant positive relationship between ESG practices and profitability and among the three dimensions, governance demonstrated the strongest influence.

Lokeshwari, Shruthi and Sneha (2025) analysed the influence of Environmental, Social, and Governance performance on financial outcomes of the selected Indian private banking sector, using ROA & ROE as dependent variables. The study employed data from CRISIL, both public and private sector banks and major variables have been examined from data sourced from the screener and analysed through lenses of 'Stakeholder Theory', 'Legitimacy Theory', 'Resource-Based View', 'Institutional Theory' and 'Signalling Theory'. The study highlighted the need for enhanced ESG disclosure aligned with global standards.

Saibal Ghosh (2025) investigated the leadership issue in the Indian private banks and identified the impact of ESG scores. The study found that there is a positive impact of leadership style on ESG quality. Further, the study suggested that the ESG performance of private banks can be possible through the individualism of CEO, which is found to be consistent with the 'Upper Echelons Theory'.

Pranesh Debnath and Rishav Kanoo (2024) assessed the impact of ESG reporting standards on the profitability of the selected banks in India. The analysis is based on cross-section data gathered from secondary sources and a sample of 32 Indian banks for 2022 using the CRISIL ESG score. The results demonstrated that the private sector banks are emphasising more on ESG practices than the public sector banks. Also, the findings showed that the components of ESG performance are associated positively with profitability of the banks.

Pranesh Debnath et al., (2024) evaluated the performance of Environmental, Social, and Governance framework of Indian banks and investigated the influence of ESG performance on profitability. Data collected from CRISIL was assessed using ordinary least square (OLS) regression. The Mann Whitney U test and box plot were employed to evaluate the variation between ESG scores of public and private banks. The study suggested that Indian banking sector prioritizes the governance and social aspects than the environmental concerns.

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Further, the study highlighted that there is an unequal ESG performance between public and private sector banks.

Ramesh Prasad and Amitava Mondal (2024) analyzed the impact of ESG framework on the market and operational performance of Indian banks. The study examined the data collected from both public and private sector banks and analysed using multiple regression models. The study found that the ESG practices have a time sensitive impact on profitability of Indian banks, and the private banks showed a greater initiative in implementing ESG framework than the public banks.

Kratika Shrivastava (2022) studied the impact of ESG parameters on profitability of D-SIBs. The data was collected from Annual Reports, Sustainability Reports, and ESG Reports of D-SIBs. The study calculated the mean values for all the 3 ESG parameters, which were further subjected to t-test at 0.05 significance level. The study concluded that the adaptation of businesses to the changing environment plays a key role to minimise the overall risk.

RESEARCH GAP

There are many global researches that integrates ESG practices into corporate strategy. Numerous studies explore its relationship with firm valuation, investor sentiment and long-term profitability. In the Indian context, most of the existing research focuses on **the presence or absence of ESG reporting**, rather than its **quality** and only a few studies on the relationship between ESG disclosure and profitability. Hence, the present study is an attempt to fulfil these gaps by analysing the relationship between ESG disclosure quality, investors' trust and profitability Indian private sector banks.

IV. Research Objectives

This section outlines the methodological framework applied in the study. To accomplish the framed research objectives, both primary and secondary data were used. The focus of the study is ESG disclosure quality and its impact on the profitability of Indian private sector banks. Hence, based on market capitalisation, the top five private sector banks, viz., ***HDFC Bank, Axis Bank, ICICI Bank, IndusInd Bank and Kotak Mahindra Bank,*** have been purposively selected as representatives of all private sector banks. The ESG scores of selected banks available in the CRSIL database have been taken for the analysis and compared across the period between 2021 and 2025. Further, secondary data have been sourced from annual reports of the selected banks and RBI reports and analysed with correlation and panel data analysis.

To evaluate the impact of ESG disclosure quality on investors' trust, primary data have been collected from 300 sample bank customers of selected private sector banks on convenience basis, and survey questionnaires were distributed through Google Forms using Likert's Five Point Scaling Technique. Descriptive statistics and simple correlation have been applied to analyse the ESG disclosure quality and its relationship with profitability. Further, factor analysis has been employed to analyse the primary data and group the variables related to investors' trust.

V. Analysis And Interpretation Of Data

A. ESG Disclosure Quality of Selected Private Sector Banks:

The data collected from the reliable sources related to ESG disclosure quality for the period between 2021 and 2025 has been tabulated and presented in Table I.

TABLE I
ESG Disclosure Quality of Selected Private Sector Banks

Bank	Jun-21				Mar-23				May-24				May-25
	E	S	G	ESG	E	S	G	ESG	E	S	G	ESG	ESG
Axis	68	66	77	**71**	70	61	77	**71**	70	61	77	**71**	**69**
HDFC	65	69	82	**73**	68	61	79	**71**	68	61	79	**71**	**71**
ICICI	62	69	78	**70**	63	61	77	**68**	63	61	77	**68**	**69**
IndusInd	72	69	73	**72**	64	55	71	**65**	64	55	71	**65**	**62**
Kotak Mahindra	74	63	81	**74**	64	58	75	**67**	64	58	75	**67**	**69**

Source: CRISIL

E -Environment; S – Social; G - Governance

Table I highlights the ESG scores of the selected five private sector banks from 2020 – 2021 to 2024-2025. Although all the banks have a strong score, Kotak Mahindra Bank Limited has the highest ESG Score as of June 2021, concentrating more on the Governance pillar. Axis Bank Limited and HDFC Bank Limited are in the leadership stage.

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All the banks concentrated more on the Governance aspect, followed by the Environmental pillar. As of May 2025, HDFC Bank Limited shows the highest ESG performance and the other four banks also have a strong ESG performance. The result clearly shows that the selected private sector banks were showing an excellent ESG disclosure performance over the years.

B. Relationship between ESG Disclosure Quality and Profitability: Simple Correlation Analysis:

This study proposes to examine the relationship between ESG disclosure quality and the profitability of the selected private sector banks. The profitability ratios, viz., Profit After Tax (PAT), Earnings Per Share (EPS), Return on Assets (ROA), and Return on Equity (ROE) have been taken for computation. The relationship between ESG disclosure quality and profitability has been measured using Simple Correlation analysis and presented in Table II.

TABLE II:
RELATIONSHIP BETWEEN ESG DISCLOSURE QUALITY AND PROFITABILITY: SIMPLE CORRELATION

Bank	ESG Score	PAT (Rs.in Cores)	EPS (Rs. in Crores)	ROA (%)	ROE (%)
Axis	69	67,347.00	88.3	1.91	14.6
HDFC	71	26,373.00	85.28	1.74	16.52
ICICI	69	408.88	58.38	2.37	18.9
IndusInd	62	2,574.54	33.93	0.5	4.17
Kotak Mahindra	69	22,126.00	111.3	2.7	15.2
R		0.41	0.75	0.79	0.93

Source: Annual Reports of Banks

PAT – Profit After Tax; EPS – Earnings Per Share; ROA – Return on Assets; ROE – Return on Equity

The data from Table II represents that ESG scores are positively correlated with Profit After Tax, Earnings per Share, Return on Assets and Return on Equity. The highest ‘r’ value if found in Return on Equity, shows that the investors consciousness in investing in equity. investors may aware on the ESG scores and disclosure quality of selected banks.

Though, there exists relationship between these variables, the value of ‘r’ demonstrates that the relationship is not strong and there may be some others factors that may strongly influence profitability.

C. Investor’s Trust in ESG Disclosure:

The survey data related to investors’ trust on ESG disclosure practices of the banks are computed using descriptive statistics and the results are tabulated in Table III.

TABLE III
OVERALL INVESTORS’ TRUST IN ESG DISCLOSURE

Investors’ Trust	N	% of Total N	Mean	Std. Deviation
High	195	65.0%	45.71	7.57
Low	105	35.0%	67.20	7.07
Total	300	100.0%	54.52	12.89

Source: Primary Data

Table III strongly supports that most of the sample investors (65%) have trust in the ESG disclosure quality of their banks. Mean score is 54.52, and the standard deviation is 12.89.

D. Influence of ESG Disclosure Quality on Investors’ Trust – Factor Analysis

To extract the factors underlying the influence of ESG disclosure quality on investors’ trust, factor analysis has been applied. In the first stage, KMO and Bartlett’s test are applied to test the sampling adequacy to apply factor analysis. The findings are shown in Table IV.

TABLE IV
INFLUENCE OF ESG DISCLOSURE QUALITY ON INVESTORS’ TRUST

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.787
Bartlett's Test of Sphericity	Approx. Chi-Square	5.842
	Df	171
	Sig.	.000

Source: Primary Data

It is vivid in Table IV that the test value is found to be significant at 1% level, which implies that there exists a correlation between the variables. Since the value of the test statistic is 0.787, which is more than 0.5, factor analysis for the selected variables is appropriate for the data. The total variances extracted in factor analysis are explained in Table V.

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TABLE V
FACTOR ANALYSIS -TOTAL VARIANCE EXPLAINED

Componen	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.8	41.0	41.0	7.8	41.0	41.0	3.8	19.8	19.8
2	1.7	8.9	49.95	1.7	8.9	49.9	3.4	18.0	37.9
3	1.5	7.7	57.6	1.5	7.7	57.6	2.3	12.1	50.0
4	1.1	6.0	63.7	1.1	6.0	63.7	2.0	10.5	60.5
5	1.1	5.6	69.3	1.1	5.6	69.3	1.7	8.8	69.3

Extraction Method: Principal Component Analysis.

Source: Primary Data

Table V reveals that 5 factors were extracted out of 19 variables used to measure the investors' trust. The first factor accounts for 41.029% variance, the second factor for 49.957% variance, the third factor for 57.636% variance, the fourth factor for 63.665% and the fifth factor for 68.276% variance. The rotation of factors after Varimax rotation is presented in Table VI.

TABLE VI
FACTOR ANALYSIS - ROTATED COMPONENT MATRIX

Statements	Component				
	1	2	3	4	5
My bank's ESG reports are clear and easy to understand.	**.810**	.038	.152	.142	.159
My bank provides sufficient details on its ESG practices.	**.785**	.027	.080	.252	-.083
I believe that ESG information disclosed by the bank is reliable.	**.668**	.431	.104	-.231	.212
My bank makes ESG information easily accessible.	**.638**	.436	.219	.044	.059
I trust that my bank does not exaggerate the ESG achievements without green washing.	.100	**.610**	.097	.483	.349
My bank' ESG disclosures are comparable and consistent with other banks.	.489	**.535**	.277	-.147	.181
My bank's ESG disclosures are find to be authentic and free from bias.	.172	**.502**	.328	.216	.412
Quality of ESG disclosure increases my willingness to invest in the bank.	.106	.000	**.765**	.088	.168
ESG disclosures creates confident to me about bank's long-term stability.	-.146	.265	**.676**	.138	.330
I believe that better ESG disclosure reduces risks in investment.	.196	.231	**.652**	.217	-.154
I always believe that ESG disclosures is as important as financial performance to make investment decision.	.402	-.052	**.650**	.304	.165
I trust that the bank's leadership integrates ESG practices in its overall strategy.	.238	.250	.190	**.579**	.323
The bank is accountable for the ESG practices given in its report.	.180	.148	.278	**.811**	.215
The governance structure of the bank inspires confidence in achieving ESG goals.	.101	.061	.161	**.788**	.294
The bank is responsive to the stakeholders' concerns about ESG.	.382	.323	.034	**.624**	-.205
My bank's ESG disclosures creates more loyalty as an investor	.005	.287	.263	.040	**.773**
ESG disclosure creates an ethical alignment with my bank.	.322	.152	.164	451	**.564**
I want to have a long-term investment in the bank because of its ESG disclosures.	.363	.510	.257	-.162	**.552**
I would always recommend my bank to others for investment because of its ESG disclosure.	.138	.223	.178	.028	**.748**

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalisation.

Source: Primary Data

Table VI shows that after 5 iterations, each factor identifies itself with a few sets of variables. Factor score coefficient is calculated for all the variables after determining the common factors, as each factor is a linear combination of all variables. The common factors that have been extracted in factor analysis were grouped and named as a single group. The grouping of variables is shown in Table VII.

TABLE VII
FACTOR ANALYSIS - GROUPING OF VARIABLES

Statements	Group Name
My bank's ESG reports are clear and easy to understand.	Perceived Transparency and Reliability
My bank provides sufficient details on its ESG practices.	
I believe that ESG information disclosed by the bank is reliable.	
My bank makes ESG information easily accessible.	
I trust that my bank does not exaggerate the ESG achievements without green washing.	Credibility and Authenticity
My bank' ESG disclosures are comparable and consistent with other banks.	
My bank's ESG disclosures are find to be authentic and free from bias.	
Quality of ESG disclosure increases my willingness to invest in the bank.	Investment Confidence
ESG disclosures creates confident to me about bank's long-term stability.	
I believe that better ESG disclosure reduces risks in investment.	
I always believe that ESG disclosures is as important as financial performance to make investment decision.	
I trust that the bank's leadership integrates ESG practices in its overall strategy.	Governance and Accountability
The bank is accountable for the ESG practices given in its report.	
The governance structure of the bank inspires confidence in achieving ESG goals.	
The bank is responsive to the stakeholders' concerns about ESG.	
My bank's ESG disclosures creates more loyalty as an investor	Emotional Trust
ESG disclosure creates an ethical alignment with my bank.	
I want to have a long-term investment in the bank because of its ESG disclosures.	
I would always recommend my bank to others for investment because of its ESG disclosure.	

Table VII clearly explains that 19 statements used to measure investors' trust have been grouped into 5 variables, namely, perceived transparency and reliability, credibility and authenticity, investment confidence, governance and accountability and emotional trust. Hence, these five variables highly impact investors' trust in ESG disclosure practices.

VI. RECOMMENDATIONS AND CONCLUSION

In light of the findings of the study, the following recommendations are proposed:

1. Banks should enhance transparency and reliability by publishing a comprehensive ESG disclosure covering all three dimensions, avoiding selective reporting.
2. A standardised reporting framework can be made that will facilitate the investors to compare across the banks.
3. To strengthen credibility and authenticity, the banks may get independent assurance or audits of ESG data to enhance investors' confidence.
4. Banks can set benchmark ESG performance against peer banks and can publish comparative investment insights to validate authenticity.
5. The banks may highlight the financial impact of ESG practices such as cost savings from energy efficiency, reduced regulatory risks and customer loyalty.
6. To ensure strong governance, an ESG Committee may be established to oversee disclosure quality and accountability.
7. Ethical values such as community engagement and sustainability should be communicated to build a strong emotional trust with the investors.

Above all, a strategic ESG disclosure approach should be adopted by the banks and in addition, digital dashboards can be incorporated to provide real-time data and ESG updates, which will be accessible to the investors. This study provides significant insights for bank management, regulators, and policymakers on the critical role of **ESG disclosure quality** in shaping **investor trust**. Some managerial implications, like **strategic integration of ESG into core business, improving transparency of disclosures, third-party assurance to reduce perceptions on greenwashing,** strong governance structures, such as **Board-level ESG committees,** communicating positive social and environmental impacts through **investor engagement forums** and continuous stakeholder engagement were recommended to build investors' trust, enhance reputation and secure sustainable investment.

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