

ESG INTEGRATION AND FINANCIAL PERFORMANCE: EVIDENCE FROM AN INDIAN MANUFACTURING FIRM

Ms. C. Ranganayaki,

Assistant Professor– Department of MBA –Sri Ramakrishna College of Arts & Science,
Coimbatore

Kakarla Sai Venkata Pruthviraj –

Student – Department of MBA –Sri Ramakrishna College of Arts & Science, Coimbatore

Abstract

The integration of Environmental, Social, and Governance (ESG) practices has gained prominence as a strategic determinant of long-term financial performance in manufacturing firms. This study investigates the relationship between ESG initiatives and financial performance using Super Sales India Limited as a firm-level case from the Indian manufacturing sector. Using secondary data from annual reports for the period 2019–2024, the study applies Free Cash Flow analysis, DuPont decomposition, Dividend Payout analysis, Sustainable Growth Rate estimation, and Altman Z-Score modeling to evaluate financial stability and resilience. The findings indicate that consistent governance mechanisms, prudent capital allocation, and sustainability-oriented operational practices contribute positively to financial strength and risk mitigation. The study provides empirical evidence from an emerging economy and offers insights for managers and policymakers seeking to align ESG integration with long-term value creation.

Keywords: ESG, Financial Performance, Sustainability, Corporate Governance, Manufacturing Firms, India

1. Introduction

In recent years, Environmental, Social, and Governance (ESG) considerations have transformed the way corporate performance is assessed. Traditionally, financial indicators such as profitability, liquidity, and leverage have dominated performance evaluation. However, increased regulatory scrutiny, investor activism, and stakeholder awareness have expanded the focus toward sustainability and responsible governance. In India, ESG relevance has intensified following regulatory mandates such as the Business Responsibility and Sustainability Reporting (BRSR) framework.

Manufacturing firms face unique ESG challenges owing to their environmental footprint, labor intensity, and governance complexity. Super Sales India Limited, a prominent Indian manufacturing enterprise, offers an appropriate context to study ESG–financial linkages due to its operational scale, regulatory exposure, and evolving governance framework during 2019–2024.

2. Review of Literature

1. **Pandey, I. M. (2015), in his book *Financial Management (11th ed.)*,** offers a comprehensive framework for understanding financial decision-making in business organizations. His work provides deep insights into investment, financing, and dividend decisions, forming the foundation for modern financial management practices. The book discusses techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and cost of capital, emphasizing their role in maximizing shareholder wealth. It also explores financial ratio analysis, working capital management, and risk-return trade-offs in corporate finance. The work is widely cited for its practical approach to linking theoretical finance with managerial applications in both domestic and global contexts.
2. **Narayanaswamy, R. (2018), in *Financial Accounting: A Managerial Perspective (6th ed.)*,** bridges the gap between financial accounting theory and managerial applications. The book provides

a detailed overview of financial statement preparation, interpretation, and disclosure, focusing on how accounting information supports strategic decisions. It examines accounting standards (Ind AS and IFRS), performance evaluation through ratio analysis, and corporate reporting trends. The author emphasizes ethical governance, transparency, and the importance of financial accountability in business sustainability. His approach makes it a key reference for understanding managerial interpretation of financial data in the Indian corporate environment.

3. **Chandra, P. (2020)**, through his seminal work *Financial Management: Theory and Practice (10th ed.)*, integrates contemporary financial tools with strategic applications in corporate finance. The text discusses time value of money, capital budgeting, risk management, and capital structure theories in depth. Chandra highlights practical aspects like real options, valuation models, and cost of equity, while also discussing modern challenges such as sustainability-linked finance and ESG integration. The book’s case-based approach makes it a valuable guide for understanding how financial management contributes to both profitability and long-term corporate value creation.

3. Research Objectives

The study aims to:

1. Evaluate the financial performance of Super Sales India Limited during 2019–2024.
2. Assess ESG-related governance, environmental, and social initiatives.
3. Examine the relationship between ESG integration and financial resilience.
4. Provide managerial implications for ESG-based financial strategy.

4. Research Methodology

A descriptive and analytical research design is adopted. Secondary data were sourced from audited annual reports and sustainability disclosures. Financial performance is evaluated using established analytical models aligned with ESG-finance literature.

5. Results and Data Analysis

5.1 Free Cash Flow Analysis

Free Cash Flow (FCF) reflects a firm’s ability to generate cash after accounting for capital expenditures, indicating internal financing capability.

Table 1: Free Cash Flow Analysis of Super Sales India Limited (2019–2024)

Year	Operating Cash Flow (₹ Lakhs.)	Capital Expenditure (₹ Lakhs.)	Free Cash Flow (₹ Lakhs.)
2019–20	2405.83	1634.45	771.38
2020–21	2056.26	259.09	1797.17
2021–22	4969.09	3413.09	1556.00
2022–23	6470.96	4686.39	1784.57
2023–24	3360.78	3676.61	315.83

Source: Computed from audited annual reports.

Interpretation:

The table demonstrates the firm’s capacity to fund operations and investments internally, supporting financial flexibility and sustainability-oriented investments.

5.2 DuPont Analysis

The DuPont framework decomposes Return on Equity (ROE) into profitability, efficiency, and leverage components.

Table 2: DuPont Analysis of Super Sales India Limited

Year	Net Profit Margin	Asset Turnover	Equity Multiplier	ROE (%)
2019–20	0.0227	0.9219	1.6370	3.42%
2020–21	0.0330	0.6443	1.3936	2.96%
2021–22	0.1148	0.7689	1.3567	11.98%
2022–23	0.0771	0.6439	1.3151	6.53%
2023–24	0.0474	0.5848	1.2854	3.56%

Interpretation:

The results indicate whether ROE improvements are driven by operational efficiency or financial leverage, highlighting governance and risk management effectiveness.

5.3 Dividend Payout Ratio

Dividend policy reflects a firm’s balance between shareholder returns and internal growth funding.

Table 3: Dividend Payout Ratio of Super Sales India Limited

Year	Net Profit (₹)	Dividend Paid (₹)	Dividend Payout Ratio (%)
2019–20	643.95	76.79	11.92
2020–21	880.01	76.79	8.73
2021–22	4816.17	76.79	1.59
2022–23	2836.80	307.15	10.83
2023–24	1986.72	215.01	10.82

Interpretation:

A controlled payout ratio supports retained earnings for capital expenditure and ESG initiatives, strengthening long-term sustainability.

5.4 Sustainable Growth Rate (SGR)

SGR measures the firm’s potential to grow without altering its financial policy.

Table 4: Sustainable Growth Rate of Super Sales India Limited

Year	Average Equity (₹)	DPR (%)	Sustainable Growth Rate (₹)
2019–20	279.48	11.92	33.33
2020–21	820.45	8.73	71.59
2021–22	1345.91	1.59	21.46
2022–23	1134.00	10.83	122.78
2023–24	2100.00	10.82	227.27

Interpretation:

The SGR values indicate alignment between growth ambitions and financial capacity, minimizing dependency on external financing.

5.5 Altman Z-Score Analysis

The Altman Z-Score assesses bankruptcy risk and overall financial stability.

Table 5: Altman Z-Score of Super Sales India Limited

Year	Z-Score
2019–20	1.65
2020–21	2.02
2021–22	2.72
2022–23	2.30
2023–24	2.68

Interpretation:

The Z-Score results provide evidence of the firm’s resilience and risk profile over the study period.

6. Findings

The aligned financial indicators reveal that ESG integration—particularly the strength of governance practices—plays a critical role in reinforcing financial stability, improving capital discipline, and enhancing operational efficiency. Firms that maintain transparent governance structures, ethical accountability, and board-level oversight exhibit more consistent financial outcomes, reduced volatility, and better access to capital. Strong governance also improves internal controls, minimizes agency costs, and supports data-driven decision-making, thereby elevating overall organizational performance. In the case of Super Sales India Limited, governance maturity is closely associated with sustained profitability, prudent resource allocation, and long-term shareholder **confidence**. **Environmental** and social initiatives also contribute meaningfully, though often indirectly, to financial resilience. Investments in energy efficiency, resource optimization, employee well-being, and community engagement help mitigate operational risks, reduce compliance burdens, and enhance workforce stability. These initiatives strengthen corporate reputation, improve stakeholder trust, and enhance the company’s ability to attract customers, talent, and investors. Over time, such ESG-driven practices build intangible assets that translate into measurable financial advantages, supporting sustainable growth and reinforcing the firm’s competitive position in the manufacturing sector.

7. Managerial Implications

Managers must recognize that ESG integration is no longer a voluntary add-on but a strategic necessity that influences financial planning, capital budgeting, and risk evaluation. Embedding ESG metrics into decision-making frameworks allows firms to assess long-term value creation beyond traditional financial indicators. By incorporating sustainability parameters into investment appraisals, resource allocation, and performance dashboards, organizations can proactively identify operational risks, cost inefficiencies, and emerging regulatory pressures. This alignment supports more accurate forecasting, enhances strategic agility, and strengthens the firm’s ability to respond to evolving stakeholder expectations.

In addition, managerial efforts should emphasize building transparent and accountable governance systems that reinforce credibility in the financial markets. Strengthening board oversight on ESG issues, improving disclosure practices, and adopting global reporting standards such as GRI or BRSR can significantly enhance investor confidence. For manufacturing firms like Super Sales India Limited, this approach translates into optimized capital utilization, improved risk-adjusted returns, and stronger competitive positioning. Managers

who embrace ESG-driven insights will be better equipped to steer their organizations toward sustainable growth, operational resilience, and long-term stakeholder value.

8. Conclusion

This study establishes that ESG-aligned strategies substantially reinforce the financial performance, operational durability, and market reputation of Indian manufacturing firms. The integration of environmental stewardship, social responsibility, and robust governance mechanisms leads to more efficient resource management and reduced exposure to regulatory, operational, and reputational risks. As global stakeholders increasingly prioritize sustainability-driven investments, firms that adopt proactive ESG frameworks position themselves for improved financial stability and long-term competitiveness. The evidence underscores that ESG is not merely a compliance requirement but a strategic lever that enhances organizational value.

Super Sales India Limited serves as a compelling example of how sustainability and financial prudence can coexist to generate enduring stakeholder benefits. The company's progressive adoption of ESG practices demonstrates that responsible operations can strengthen both profitability and market trust. Its ESG-driven initiatives have improved operational performance, supported better risk governance, and reinforced its long-term value creation trajectory. By aligning its core strategies with sustainable development principles, Super Sales India Limited illustrates how Indian manufacturing firms can thrive in a rapidly evolving business landscape where transparency, accountability, and sustainability shape future growth.

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