IJRAR.ORG E-ISSN: 2348-1269, P-ISSN: 2349-5138

INTERNATIONAL JOURNAL OF RESEARCH AND ANALYTICAL REVIEWS (IJRAR) | IJRAR.ORG

An International Open Access, Peer-reviewed, Refereed Journal

A Comparative study of Carbon Disclosure Project and Market Capitalization in Public and Private Sector Banks

P. Nithyakirrthy[1], Dr. R. Shanthi[2], N. Santhosh[3], Ph. D., Research Scholar,
[1]Department of Commerce, University of Madras,
[2]Professor & Head, Department of Commerce, University of Madras,
[3]Assistant Professor, Department of Commerce, Ramakrishna Mission Vivekananda College

Abstract:

As the global financial landscape moves toward responsible and sustainable investing, there is a growing connection between investors and the Sustainable Development Goals (SDGs). Organizations may monitor, manage, and disclose their environmental impacts with the aid of CDP, especially when it comes to challenges that directly connect with certain SDGs, such as deforestation, water security, and climate change. The study's objective is to ascertain the current state of operations for banks in the public and private sectors based on market capitalization and the carbon disclosure project. The study used procedures for purposive sampling. The study's conclusions demonstrate that Yes Bank, a private sector bank, and State Bank of India, a public sector bank, are both very involved in environmental issues, and their respective CDP scores are both leadership and manageable.

Key Words*: Carbon Disclosure Project (CDP), Market Capitalization, Public and Private Sector Banks*

Introduction

It is appropriate that the banking industry welcomes this shift toward sustainability. When making investment decisions. sustainable investing also known as responsible investing or values-based investing involves taking into account social, political, and environmental issues in addition to financial ones. A central bank is crucial to the shift in finance toward sustainability. To yet, they have mostly concentrated on ESG risks that is, risks associated with climate change that may have an effect on financial stability. The development of new ESG rules is expected to accelerate because to increased awareness and improved transparency of the environmental and social repercussions (Uzsoki, D., and iisd. Org, 2020).

The term "CDP" in India can be used to refer to the Carbon Disclosure Project, a global non-profit that assists businesses, towns, states, and areas in revealing their environmental effects, with a particular emphasis on deforestation, water security, and climate change. In India, the Carbon Disclosure Project (CDP) began operations in 2007. To advance environmental transparency and sustainability activities, CDP India works with important stakeholders like the Ministry of Environment, Forests, and Climate Change (MoEFCC), financial institutions, and sustainability-focused groups.

It motivates Indian businesses to voluntarily disclose the risks associated with climate change and its effects on the environment. Investors and politicians use the data to evaluate Indian companies' environmental performance and inform decisions about sustainable development. The ecology is improved by energy transition and stock market capitalization (Liang, Y., et al., 2023).

Market capitalization is a popular index that's frequently used to gauge the size of the stock market. The entire value of all shares that are listed is equivalent to market capitalization. It is assumed that market size and the capacity to raise capital and diversify risk are positively associated in terms of economic significance. The ease with which investors can purchase and sell securities is referred to as liquidity. Because it shows how the market improved capital allocation and boosted the likelihood of long-term economic growth, it is a significant indicator of the development of the stock market (Alajekwu, U. B., & Achugbu, A. A. (2012)). To resolve these concerns, a thorough study would be beneficial. There is a dearth of empirical research on the carbon disclosure initiative involving Indian bank market capitalization. In an effort to close this research gap, the current study set out to evaluate the current state of play for Indian public and private sector banks based on market capitalization and the carbon disclosure project (CDP).

The paper that follows is divided into five sections. The above-discussed introduction is given in the first section, and the goals of the study, research gaps, and full review of previous studies are given in the second section. The research approach employed for this study is presented in the third section. The analysis and interpretation of the data are covered in the fourth section, and the study's recommendations and findings are covered in the fifth.

Review of Literature

The banking industry is a key player in advancing sustainable development since it is a fundamental pillar and enabler of economic growth in the economy (Weber, 2005). All stakeholders place a high priority on sustainability, which is the foundation of corporate sustainability. Corporates are becoming more conscious of the need to address environmental, social, and governance (ESG) challenges in order to support development that is sustainable. Businesses worldwide now face a challenge in creating sustainable organizations through increased social and environmental performance (Marrewijk 2003).

An indigenous branch of the global CDP organization, CDP India, brings and oversees the Carbon Disclosure Project (CDP) in India. Global non-profit CDP works with a range of institutions, enterprises, and governments to push them to share their environmental data, especially when it comes to deforestation, water use, and climate change. Market participants may be able to manage risks and take advantage of opportunities with the information that carbon disclosure may offer. (Q. Wang (2023)).

The practice of disclosing carbon emissions could enhance companies' carbon management and help them better address transitional hazards in addition to physical threats. For instance, carbon disclosure can boost a company's market reputation, enhance transparency, and enhance stakeholders' perception of its carbon performance. Nonetheless, notification of carbon emissions may be required by law or optional (Borghei, 2021; Hahn et al., 2015). It is not required to submit responses to the Carbon Disclosure Project (CDP).

Government agencies are calling for more environmental accountability. Disclosure through CDP can help firms by showcasing their environmental leadership, enhancing risk management, and drawing in sustainability-focused investors—even though it's not legally required. CDP encourages accountability and transparency in environmental, social, and governance (ESG) standards, which are increasingly important considerations for investors and have an impact on market capitalization in the Indian banking industry.

In general, market capitalization serves as a proxy for a publicly traded company's total market worth. For businesses and banks, a growth in market capitalization is a successful outcome. Due to the comparatively high likelihood of growing returns, an increase in market capitalization typically boosts investor interest in long-term deals (Sinta et al., 2020).

It became clear that no previous studies had looked at this association between market capitalization and CDP from the investor's perspective. The study is to evaluate the current state of CDP disclosures and market capitalization in both public and private sector banks in order to fill this research gap.

Research Methodology

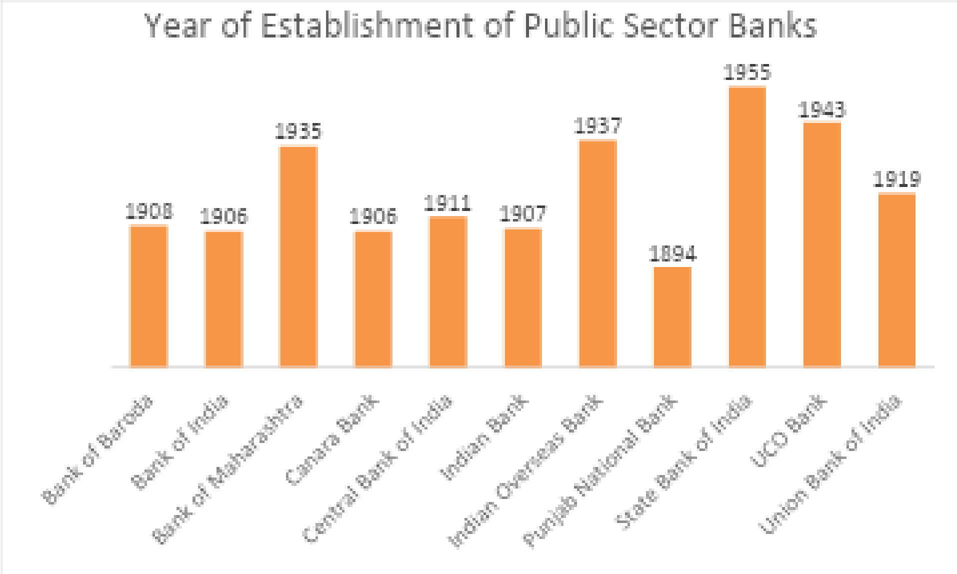
The following methodology used in the study are

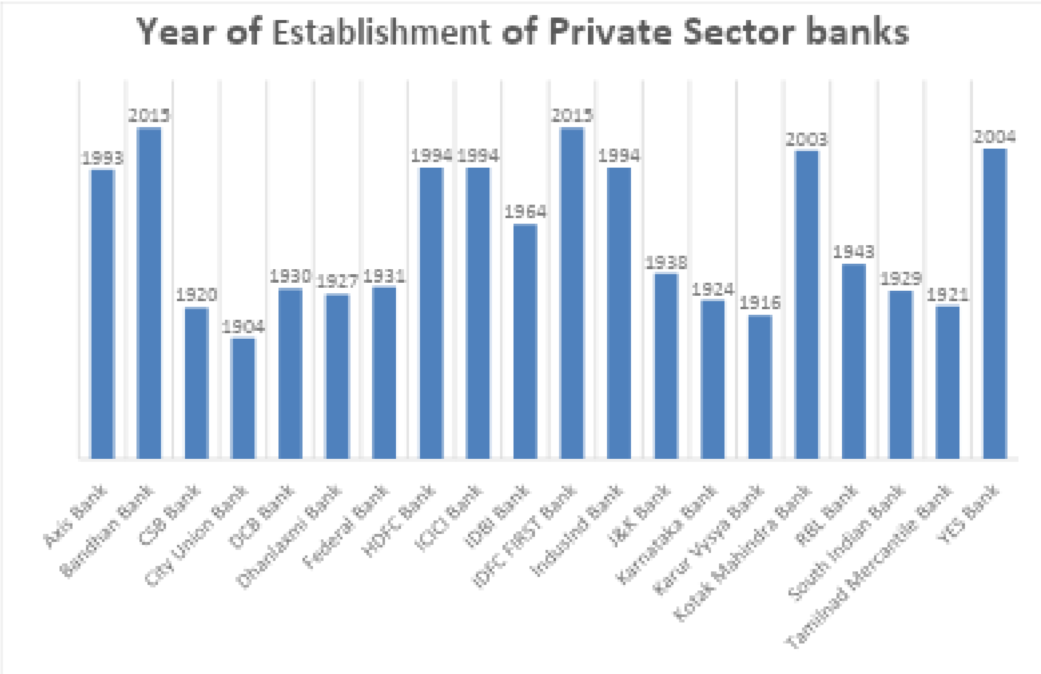
- Data Source: The study used secondary data from the CDP website and Google Finance to ascertain the current state of public and private sector banks based on CDP and market capitalization.
- Sampling Technique: The Purposive sampling technique is used for this study
- Sample Size: The eleven public sector banks that make up the study's sample size are the following: State Bank of India, Bank of Baroda, Punjab National Bank, Bank of India, Union Bank of India, Canara Bank, Bank of Maharashtra, Central Bank of India, Indian Overseas Bank, Indian Bank, and UCO Bank. Additionally, there are twenty private sector banks: IndusInd Bank, IDBI Bank, Yes Bank, IDFC First Bank, Federal Bank, Bandhan Bank, Karur Vysya Bank, RBL Bank, City Union Bank, Jammu & Kashmir Bank, Karnataka Bank, Tamilnad Mercantile Bank, South Indian Bank, CSB Bank, DCB Bank, Dhanlaxmi Bank, and HDFC Bank.
- Study Period: The study takes a period of financial year 2023.
- Data Analysis: In this study, the data was analyzed by making bar chart diagram
- Parameters of Variables: The type of variables considered for the study are
    a. Market Capitalization
    b. Carbon Disclosure Projects (CDP) - On a letter-grade scale ranging from A to D-, CDP assigns ratings; organizations who do not submit enough information receive an F. Four levels are assigned to the scores: Leadership (A), management (B), awareness (C), and disclosure (D). In order to maintain the status quo, the study assigned a numerical value to each of the following: leadership (5), management (4), awareness (3), disclosure (2), and no response (1).

Data Analysis and Interpretation

The year that banks were established, their market capitalization, and their Carbon Disclosure Project Score are all covered in the upcoming chapter. The study is relevant for investors who are able to assess the environmental risks and possibilities linked to their portfolios, especially given the increasing popularity of sustainable and socially conscious investing.

Table 1: Year of Establishment of Public and Private Sector of Banks

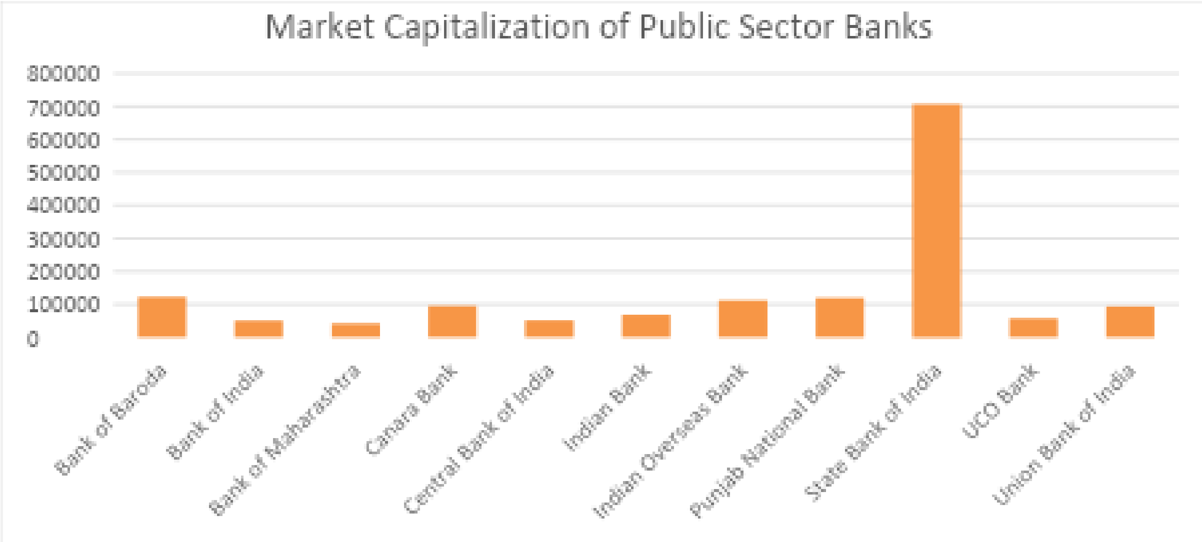


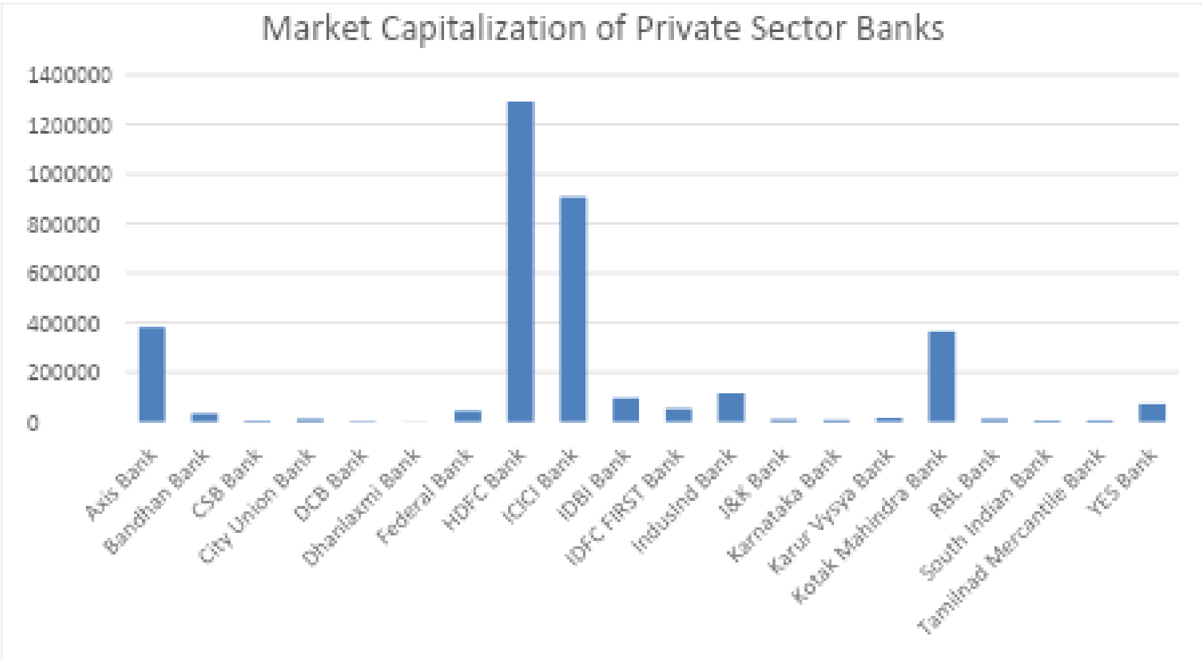


Indian public and private sector banks' founding years are displayed in the above table. When comparing market capitalization and carbon disclosure projects, the year of bank establishment must be taken into consideration. Due to variations in the year, account holder, stakeholder, loan lending value, non-performing value, and other factors, every bank is unique. Although the State Bank of India has historical roots that date back to 1806, it was formally created in its current form in 1955. This is seen in the above table of public sector banks, where the data indicates that Punjab National Bank is the oldest of all the banks. In order to create the State Bank of India, it was combined with other banks. SBI is now one of the largest and most prominent banks in India.

Indian private sector banks that are among the oldest are City Union Bank (CUB). It is one of the nation's oldest continually running private sector banks, having been founded in 1904. In the Indian banking industry, Bandhan Bank and IDFC First Bank are relatively recent additions. After IDFC Bank (founded in 2015) and IDFC First merged, IDFC First Bank was created in 2018.

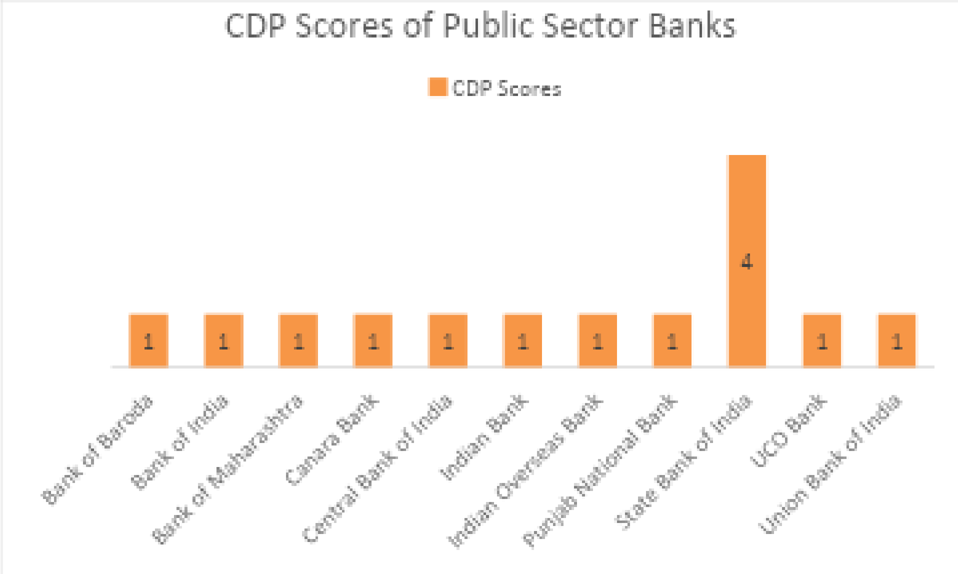
Table 2: Market Capitalization of Public and Private Sector Banks in India

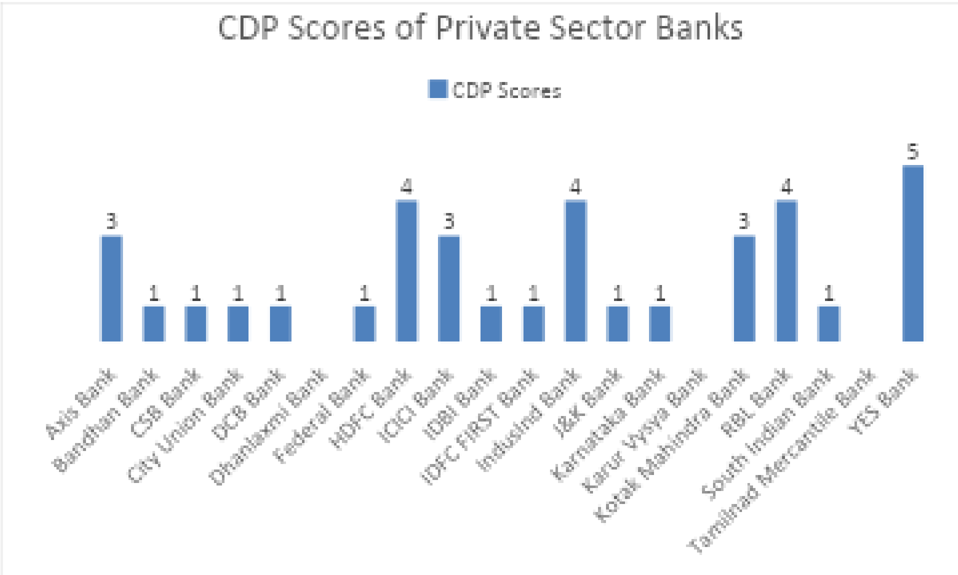




The market capitalization of Indian public and private sector banks is displayed in the above table. Market capitalization, which is determined by multiplying the current stock price by the total number of shares available in the market, is the overall market value of a company's or bank's outstanding shares. In essence, it serves as a gauge for a bank's or company's total worth, reflecting the scale of the organization. State Bank of India has the largest market capitalization value of all the public sector banks. In terms of market capitalization, HDFC Bank leads the private sector banks in India. It is followed by ICICI Bank, Axis Bank, and Kotak Mahindra Bank.

Table 3: CDP Scores of Public and Private Sector Banks in India





The carbon disclosure projects of Indian public and private sector banks are shown in the following table. The study used numerical terms to rank the banks: on the CDP scoring scale, the results would be A= Leadership, B= Management, C= Awareness, D= Disclosure, F= No Response or Insufficient Information, and so on. Alternatively, 1 would mean no response, 2 = Disclosure, 3 = Awareness, 4 = Management, and 5 = Leadership. State Bank of India is the public sector bank that has provided information about environmental issues in response to a request from the CDP; other public sector banks have not provided any information at all.

The only private sector bank to reach the highest level of leadership in the industry is Yes Bank, which provided the information requested by the CDP via a questionnaire regarding environmental issues. Other banks in India that have done the same include HDFC, IndusInd, and RBL banks.

Suggestions

The following recommendations can improve the banks' market performance, draw in more sustainable investments, and strengthen their reputation in the environmental space.

- Promote Environmental Transparency: Publish detailed environmental data on carbon emissions, energy and water use, and risks associated with deforestation on a regular basis. This shows a dedication to openness, which is something that investors that prioritize ESG factors are beginning to value more and more.
- Set Science-Based Targets: To reduce carbon emissions and enhance environmental performance, set and publish challenging, science-based targets. Reaching these goals can raise investors' attention to sustainability and raise CDP ratings, which will boost market perception.
- Integrate Climate Risk Management: Create effective plans to recognize, evaluate, and reduce financial risks associated with climate change. Providing transparent information about these initiatives can boost investor confidence, lower perceived risks, and increase share prices.
- Engage Stakeholders on Sustainability: Take an active role in discussing sustainability-related concerns with stakeholders, including as investors, regulators, and customers. Being a leader in environmental matters can improve a bank's standing and increase its appeal to investors who are concerned about environmental, social, and governance issues.
- Invest in Green and Sustainable Finance: Give funding for environmentally friendly initiatives like sustainable agriculture, energy-efficient infrastructure, and renewable energy top priority. The bank's dedication to sustainability is demonstrated by highlighting these projects in CDP reports, which raises investor interest and share value.
- Boost Accountability and Governance: For environmental and sustainability-related challenges, fortify the governance framework. Establish committees or executives specifically tasked with monitoring climate-related risks and sustainability objectives. Companies with good ESG governance leadership attract investors and potentially increase market capitalization.
- Promote Innovation in Sustainable Products: To meet the growing demand for ethical investments, create cutting-edge financial products like green bonds or loans with a sustainability component. By making these products available through CDP, the bank becomes more appealing to investors looking for ethical investing options, which raises the market capitalization and share price.

Conclusions

More people are realizing that developing market economies' potential to grow depends on sustainability (Meena 2013). Banks are essential to the advancement of sustainable development because of their function as economic intermediaries (UNEP FI 2011; Rahman and Barua 2016). the analysis that establishes the current state of affairs for banks in the public and private sectors based on market capitalization and carbon disclosure initiatives. CDP encourages accountability and transparency in environmental, social, and governance (ESG) standards, which are increasingly important considerations for investors and have an impact on market capitalization in the Indian banking industry. Banks that use CDP to report their water use, sustainability efforts, and climate concerns frequently get better CDP scores, indicating that they are leaders in ESG practices. Furthermore, Indian banks are being forced to adopt sustainable practices due to regulatory pressures and rising consumer knowledge of environmental issues. For these reasons, CDP disclosures are becoming an increasingly important instrument for enhancing investor trust and long-term financial performance.

Reference

Alajekwu, U. B., & Achugbu, A. A. (2012). The role of stock market development on economic growth in Nigeria: A time series analysis. *African Research Review*, *6*(1), 51-70.

Borghei, Z. (2021) Carbon disclosure: a systematic literature review. Accounting and Finance, 61(4), 5255–5280. Availablefrom: https://doi.org/10.1111/acfi.12757

Hahn, R., Reimsbach, D. & Schiemann, F. (2015) Organizations, climate change, and transparency: reviewing the litera-ture on carbon disclosure. Organization and Environment, 28(1), 80–102

Liang, Y., Galiano, J. C., & Zhou, H. (2023). The environmental impact of stock market capitalization and energy transition: Natural resource dynamics and international trade. *Utilities Policy*, *82*, 101517.

Meena, R. (2013). Green banking: As initiative for sustainable development. Global Journal of Management and Business Studies, 3(10), 1181–1186.

Marrewijk M (2003) Concepts and definitions of CSR and corporate sustainability: between agency and communion. J Bus Ethics 44:95–105

Rahman, M., & Barua, S. (2016). The design and adoption of green banking framework for environment protection: Lessons from Bangladesh. Australian Journal of Sustainable Business and Society, 2(1), 1–19.

Sinta, Abdullah, Muh. W., & Rahman, Muh. A. (2020). KONSEKUENSI REAKSI PASAR TERHADAP HARGA SAHAM DENGAN PENGUATAN INCOME SMOOTHING.

Jurnal Ekonomi, Manajemen & Akuntansi, 10(1), 29–47. https://journal.uin-alauddin.ac.id/index.php/assets/article/view/14757

Uzsoki, David (2020), https://www.iisd.org/system/files/publications/sustainable-investing.pdf

UNEP FI. (2011). UNEP FI guide to banking and sustainability. Resource document, UNEP Finance Initiative, Switzerland. www.unepfi .org/fileadmin/documents/guide_banking_statements.pdf. Accessed December 09, 2016.

Weber, O. (2005), "Sustainability benchmarking of European banks and financial service organizations", Corporate Social Responsibility and Environmental Management, Vol.12No.2, pp.73-87.

Wang, Q. (2023). Financial effects of carbon risk and carbon disclosure: A review. *Accounting & Finance*, *63*(4), 4175-4219.