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## Growth Of Esg-Oriented Mutual Funds and Investor Response in India

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### Abstract

This paper examines the development of Environmental, Social, and Governance (ESG)-oriented mutual funds in India and analyses how investors have responded to this thematic category. The study explores the growth trajectory of Indian ESG mutual funds in terms of assets under management (AUM), regulatory drivers, performance relative to conventional mutual funds, and investor perceptions. While ESG-oriented funds offer sustainable investment opportunities aligned with ethical values, empirical evidence suggests mixed performance outcomes and varied investor engagement in India. The study further highlights challenges such as limited investor awareness, greenwashing concerns, and the nascent state of ESG investing in the Indian context. The findings will assist fund managers, investors, and policymakers in understanding the current state and potential future of ESG investing in India.

**Keywords:** ESG mutual funds, sustainable investing, investor response, India, mutual fund performance, investor awareness

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### Introduction

Environmental, Social, and Governance (ESG) criteria have gained significant traction worldwide as investors increasingly integrate sustainability factors into investment decisions. ESG-oriented mutual funds invest in companies that meet specific environmental, social and governance standards, aiming not only for financial returns but also for positive societal impact. In India, the ESG mutual fund segment has evolved from a niche category to a thematic investment option, driven by regulatory changes and rising investor interest in sustainability. ESG funds, though still relatively small compared to traditional categories, demonstrate potential for growth as awareness increases among retail and institutional investors.

### Literature Review

Recent scholarly work indicates that ESG funds in India are gaining attention but remain underexplored as a thematic category. Soni (2023) studied the relationship between ESG scores and mutual fund performance, finding that higher ESG ratings did not necessarily translate into superior risk-adjusted returns compared to lower ESG funds in India, highlighting the complexity of sustainable investing performance.

Other research comparing ESG funds with benchmark indices suggests that ESG-themed funds may behave differently from conventional benchmarks and their responsiveness to market changes varies across schemes. These studies underscore the need for further investigation into investor responses and the actual financial and non-financial performance of ESG funds in the Indian market.

Additionally, research on investor awareness shows varying degrees of understanding among retail investors, with demographic factors influencing awareness levels. Studies also signal that the ESG fund market size in India has grown from modest beginnings to several thousand crore rupees in AUM, though recent trends show fluctuating net flows and launches.

## Research Methodology

This paper employs a **descriptive and analytical research design**, synthesizing secondary data from academic journals, industry reports, and authoritative financial analysis. The sources include empirical studies on fund performance, market growth data, and investor surveys when available. The analysis focuses on:

1. **Growth patterns** of ESG mutual funds in India (AUM and scheme launches).
2. **Investor response**, including awareness, perception, and investment behavior.
3. **Comparative performance** of ESG-oriented funds with conventional counterparts.

### Growth of ESG Mutual Funds in India

ESG-oriented mutual funds in India remain an **emerging segment** within the broader mutual fund industry. The total AUM of ESG funds climbed significantly from about ₹2,747 crore in early 2020 to nearly ₹9,700–₹10,800 crore by 2024–25, reflecting rising but still niche market adoption. Regulatory frameworks such as SEBI's Business Responsibility and Sustainability Reporting (BRSR) guidelines aim to improve ESG disclosures in the Indian market, potentially enhancing the quality of ESG fund portfolios over time.

Despite initial growth, recent data indicate fluctuating net inflows and a slowdown in new ESG fund launches, suggesting that investor enthusiasm may be sensitive to broader market conditions and awareness levels.

## Investor Response to ESG Funds

### Awareness and Perception

Investor awareness about ESG mutual funds in India is growing but remains uneven. Studies show that demographic factors such as age, education, and occupation significantly influence investor awareness about ESG investment opportunities. Many investors view ESG funds as an ethical choice rather than purely financial, which can attract a specific segment interested in sustainability alongside returns.

### Performance and Investment Behavior

Empirical research indicates mixed performance outcomes for ESG funds in India. Some studies find that higher ESG score funds did not consistently outperform during normal or crisis periods, such as the COVID-19 pandemic, suggesting that ESG integration may not guarantee superior financial performance. Other research comparing risk-adjusted metrics across ESG and conventional funds indicates that while ESG funds may show stable outcomes, conventional funds often continue to deliver stronger results on traditional financial metrics.

Investor response in terms of net flows has also shown volatility, with periods of high inflows followed by outflows and deceleration in new fund launches, reflecting evolving investor preferences and market conditions.

## Challenges and Opportunities

### Challenges

- **Limited Awareness:** Many investors lack sufficient understanding of ESG criteria and rely on superficial perceptions rather than rigorous evaluation.
- **Greenwashing Risks:** Concerns about marketing ESG labels without robust underlying sustainability practices can deter investor confidence.
- **Performance Trade-offs:** Mixed evidence on the financial benefits of ESG investing may limit appeal among return-oriented investors.

### Opportunities

- **Regulatory Support:** Enhanced disclosure standards and sustainability reporting frameworks can improve transparency and trust in ESG investing.
- **Growing Ethical Investing Trends:** Rising global and Indian investor interest in sustainable finance provides long-term growth potential for ESG funds.
- **Product Innovation:** New thematic ESG products can cater to diverse investor values and risk profiles.

### Conclusion

ESG-oriented mutual funds in India represent a growing segment of the asset management industry, driven by sustainability trends, regulatory support, and investor interest in ethical investing. However, the market remains nascent, with fluctuating fundflows and mixed empirical performance results. Investor awareness and understanding of ESG principles are crucial for the broader adoption of these funds. Policymakers, fund managers, and educators should collaborate to strengthen ESG disclosures, enhance investor education, and build confidence in sustainable investing. Future research with primary data on investor behavior and long-term performance metrics will further illuminate the role of ESG funds in India's financial ecosystem.

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