

# The Growing Role of Environmental Sustainability in Private Equity Investment Decisions: Evidence from India

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## Abstract

*Environmental sustainability has stopped being a peripheral ethical issue to become a leading factor of making investment decisions in global financial markets. Over the last few years, PE firms, which have traditionally been motivated by financial gain, have been integrating environmental concerns into their investment vehicles. The contributing factors to this change are increased regulatory guidelines, heightened stakeholder expectations, and the increased awareness that keeping environmentally friendly practices helps to build greater long-term value. This paper discusses how environmental sustainability has been increasingly playing an important role in the decision making of private equity investors, especially in the Indian market. It examines the effects of environmental factors, like climate risk management, carbon footprint reduction, resource use efficiency, and regulatory compliance on investment choice, valuation, and portfolio management. The study shows, through the use of qualitative analysis through academic literature, industry reports, and selected Indian case examples, that environmental sustainability is being viewed as a strategic driver of competitiveness and not as a form of compliance. The results suggest that aligning private equity investments with environmental sustainability not only helps to reduce regulatory and operational risks but also helps to enhance financial performance and long-term longevity. The paper also adds to the emerging body of literature on sustainable finance because it sheds light on how the environment is transforming the nature of investment in private equity in developing and emerging economies such as India.*

**Keywords:** Private Equity Investment, Environmental Sustainability, ESG, Sustainable Finance, India

## Introduction

The world of global investment has seen a major change with the development of environmental sustainability as a major determinant in the process of capital allocation. Shareholders are becoming more aware of the fact that the environmental risks of climate change, non-compliance of regulations, and lack of resources are material threats to long-term business sustainability. Sustainability issues have, therefore, taken a prominent role in investment analysis, especially in the field of the private equity sector.

India is one of the interesting scenes in which to analyse this change. India is one of the fastest developing economies in the world and hence many forms of private equity investments are being attracted in the country such as renewable energy, infrastructure, manufacturing, and technology. At the same time, the nation has acute environmental issues, including air pollution, water shortage, and climate effects. These issues have led to

greater regulation and pressure on businesses sustainable in their practices.

Indian-based private equity firms are starting to recognise that environmental sustainability has a direct impact and effect on business survival, valuation, and exit opportunities. In comparison to short-term investors, PE firms generally use a long-term ownership strategy, which allows them to actively participate in the businesses of portfolio companies regarding their operational and environmental policies. This paper examines the integration of environmental sustainability in the decision-making process of private equity investors in India and how the process ensures long-term value addition.

### **Purpose and Importance of the Study**

The research problem is concerned with the issue of environmental sustainability in the decision-making of private equity investment in the Indian setting. It analyses the effects of environmental issues on investment screening, investment valuation, portfolio management, and strategic decision-making. To private equity investors, it puts the strategic significance of incorporating environmental concerns into investment structures in perspective. To Indian companies, it highlights the increasing need to go green in the effort of attracting long-term capital. Academically, the research paper adds to the body of literature related to sustainable finance because it offers information on ESG-motivated behaviour of private equity in an emerging economy.

### **Research Objectives**

1. To examine the emerging relevance of environmental sustainability in the investment decisions of private equity.
2. To determine the important environmental determinants of private equity investments in India.
3. To investigate the relationship between environmental sustainability and the valuation and performance of Indian companies.
4. To evaluate selected Indian case examples of environmental sustainability in private equity investments.
5. To determine the new trends in sustainable private equity investing in India.

### **Literature Review**

Environmental sustainability has become an increasingly popular topic in investment decision-making over the past few years especially with the advent of Environmental, Social, and Governance (ESG) models. A systematic literature review on the topic of sustainability in private capital investing by Mirza et al. (2022) revealed that the sustainability-related research related to the sphere of private equity is very scarce in comparison to the publicly-traded stock market. Their paper notes that despite the immense power held by private equity firms on portfolio companies, the impact of sustainability factors in the decision-making by private equity firms has received minimal attention in terms of scholarly research.

Kaul (2023) investigated the correlation between ESG integration and value generation in the framework of private equity investments and determined that environmental sustainability considerations alongside other ESG aspects could lead to better long-term financial performance and risk management. According to the study, environmental factors are increasingly being perceived not as a limitation, but as tactical tools that can be used by investors to discover operational efficiencies and reduce regulatory and reputational risks. Nonetheless, it is an analysis that is more global as opposed to empirically concentrated on emerging markets like India.

Getting more specific to the Indian environment, Mishra et al. (2025) examined ESG considerations in Indian-based private equity firms and found that ESG is increasingly being considered and utilised at the due diligence stage and post-investment governance phases. According to their results, environmental sustainability is slowly taking its toll on investment screening and monitoring procedures. However, issues of ineffective integration of sustainability concerns in Indian private equity decision-making are also noted in the form of absence of standardised environmental measurements, limited expertise, and regulatory

uncertainties.

Mohanty et al. (2025) investigated the practices of environmental sustainability reporting in India and highlighted that transparent environmental reporting is significant in influencing investor confidence and investment choices. Their research is not solely on the aspect of private equity; nevertheless, it confirms that environmental performance and reporting are important indicators to investors in the Indian market. This implies that the environmental practices of target companies, particularly those in sectors vulnerable to regulatory and environmental hazards, are likely to have an influence on private equity firms.

Lalhunthara et al. (2025) examined the effectiveness of ESG criteria in investment decisions and concluded that environmental factors are becoming an important part of investment decisions alongside traditional financial indicators. Their study shows a change of thinking among investors towards sustainable investment procedures but the research is general and fails to distinguish between public market investors and private equity companies, and does not give India-specific evidence.

Boston Consulting Group (2023, 2024) industry reports also suggest that the world is witnessing a greater adoption of environmental sustainability in the investment strategies of private equity firms to advance future value creation and resilience in their portfolios. Nevertheless, such reports also state that the adoption of sustainability among emerging economies like India is uneven and is mostly made by global limited partners, rather than by domestic regulatory or market forces. Although the literature on ESG and sustainability is increasing, there is a serious research gap on the topic of the importance of environmental sustainability in private equity investment decisions in developing countries such as India.

### **Research Methodology**

The research design applied in the study is descriptive, using secondary data. Academic journals, industry reports, sustainability disclosures, and government publications have been used as sources of information. A thematic analysis method is used to assess the impacts of environmental sustainability in the behaviour and returns of private equity investment.

### **Research Objectives Discussion**

In India, the environmental factors that affect the choice of investments in private equities have been discussed below.

### **Climate Risk Management**

Increased exposure to risks associated with climate-related hazards such as floods, heat waves, and water scarcity is a major problem affecting Indian businesses. Private equity investors measure how companies identify and eliminate these risks especially in the fields of infrastructure, agriculture, and manufacturing. Business models that are resistant to climate change improve the viability of a long-term investment.

### **Carbon Footprint Reduction**

India's efforts to cut down emissions have triggered private equity fund investments in renewable and low-carbon industries. Greenko Group, ReNew Energy Global, and Tata Power Renewable Energy have had significant PE investment because of their focus on clean energy generation and carbon reduction policies.

### **Resource Efficiency**

India is a resource-limited economy that requires efficient energy and water consumption. The use of energy-saving technologies, waste reduction strategies, and the implementation of circular economic models are promoted by private equity firms in their portfolio companies in order to build operational efficiency and profitability.

## **Regulatory Compliance**

India's environmental regulatory system has been tightening up. Environmental due diligence performed by private equity firms is thorough to prevent the risks associated with non-compliance, project delays, and monetary penalties.

## **Environmental Sustainability Effect on Valuation and Performance**

Environmental sustainability has a positive effect on the valuation of companies because it allows minimising regulatory uncertainty and increasing operational resilience. The reduction in the cost of capital is usually advantageous to sustainable firms, and a higher degree of stakeholder trust and long-term cash flows is likely to be very beneficial. Sustainability is emerging as one of the major drivers of exit valuation by private equity investors.

## **Case Analysis of Environmental Sustainable Investment in Private Equity**

ReNew Energy Global has had significant private equity investment to increase renewable capacity and improve the efficiency of operations.

Tata Power Renewable Energy is a company that has attracted PE funding with an aim of enhancing solar and wind infrastructure in India.

Greenko Group has been able to utilise the support of private equity to develop comprehensive renewable energy and storage solutions.

These cases indicate how environmental sustainability is consistent with long-term financial performance.

## **Findings**

- Environmental sustainability is a new major requirement in the investment decisions of the private equity sector.
- PE firms are progressively understanding sustainability as a value-creating instrument as opposed to a regulation.
- Sustainable firms have been shown to be more resilient, more highly valued, and to have greater investor confidence.

## **Conclusion**

The concern of environmental sustainability has been seen as a determinant factor in influencing private equity investment decisions in India. Incorporation of environmental concerns will help private equity firms to reduce risk, improve their performance, and have sustainable returns. Since India is moving towards a greener economy, environmentally sustainable private equity investments will be vital in promoting economic sustainability in the long term.

## **Managerial Implications and Recommendations**

In an effort to enhance sustainability, private equity firms need to institutionalise environmental assessment systems and promote sustainability projects in their portfolio firms. Managers must be able to incorporate environmental goals in the main strategy and understand that sustainability is a source of competitiveness and long-term value.

## **Research Limitations and Future Research Scope**

The paper applies secondary data and selected case instances. Future studies can include empirical research, cross-country comparisons, and expansion of the ESG dimensions.

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