Temperature Rating Analysis for Indian Companies

A knowledge product for financial institutions
CDP India

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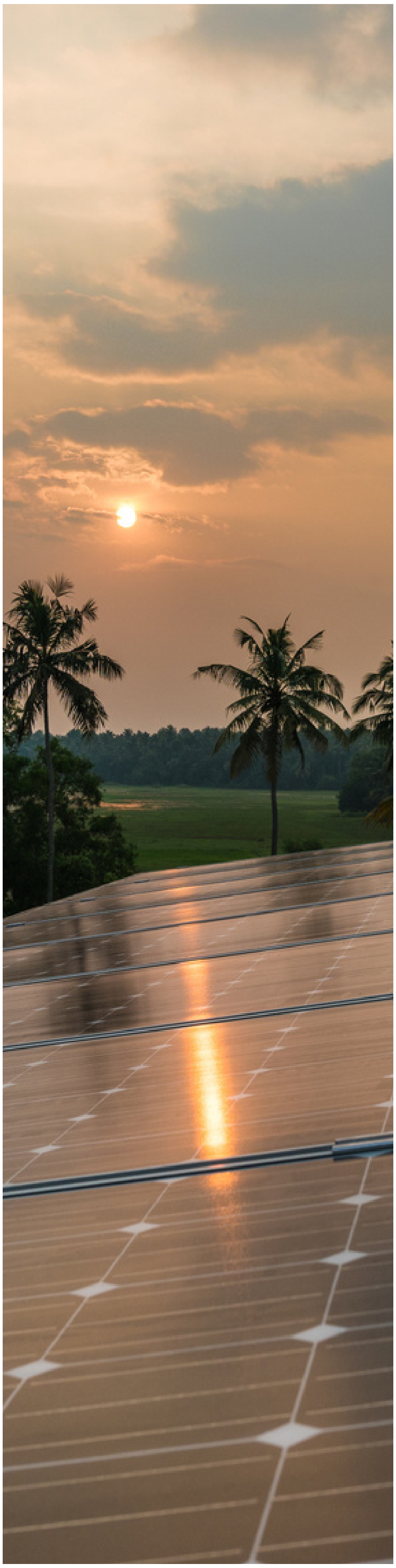
Preface



To limit global temperature rise to 1.5°C and avoid the most severe impacts of climate change, global emissions need to reach net-zero by 2050. However, Indian authorities found this target a little ambitious and given the context that India is an emerging economy, India has set a target of net-zero by 2070 for itself. But assessing the ambition of corporate emissions reduction targets has to date been complex, as targets can use different units, vary across timeframes, and cover a range of emissions scopes.

As long as leading corporates are unaligned with climate goals, the capital invested in them will continue to be at risk, putting the financial sector at a high risk as well. But when companies move toward more ambitious action, the resultant market shift will have the potential to influence the wider economy.

Against this, CDP wants to help investors to benchmark, communicate and reduce the temperature impact of their portfolio and the Temperature Ratings dataset gives investors a clear, uniform standard for sustainable investment.

Temperature Ratings are ideally suited for investors' forward-looking corporate climate risk analyses and portfolio temperature assessments.

This report uses CDP's latest temperature ratings for publicly disclosing Indian companies which are investor requested, supply chain companies and SBTi companies, to assess whether their corporate emissions reduction targets are aligned with the Paris Agreement's 1.5°C goal. The important finding has been that Indian companies currently featured in the dataset are on a path to a 2.8°C temperature increase. This makes a compelling case that the capital invested in them is not up to the mark with Paris Agreement targets and that financial institutions need to engage with those companies to increase their ambition, as well as realign their strategies and investment portfolio.

Background

The significance of the Paris Agreement goal of 1.5°C cannot be over emphasised in today's time when the world is confronted by so many challenges and adversities emanating from climate change. At the same time, sticking to the Paris target is critical. For example, the difference between 1.5°C and 2°C means 2.6 times more people are likely to be exposed to extreme and potentially dangerous heat events, according to the United Nations Intergovernmental Panel on Climate Change (IPCC). The IPCC also warns of a tenfold increase in the likelihood of ice-free arctic summers, a 38% increase in the thawing of permafrost, twice the impact on annual fishery yields.

India's efforts to meet the goals of the Paris Agreement have been ambitious with the government announcing policies around meeting its NDCs targets. India has made huge strides in improving energy access, but needs to continue to develop the energy network and diversify its fuel mix. The country's path to decarbonization could be a net-positive one if it turns to low- and no-emissions technologies backed by sound policies.

Nonetheless, this will come about by the collaborative action from all the market players and not just by policymakers. The Indian private sector has an important role to play in this effort as well. Recent years have observed a rapid increase in corporates committing to and setting their climate targets.

Today, businesses are increasingly looking at climate change with a positive lens and are tapping into climate-related opportunities to align themselves with net-zero carbon emissions. There has been an upward trajectory with corporates setting their GHG reduction targets. The report analyses the current status of corporates as to where they stand in terms of their journey to align with the Paris Agreement.

Indian sample

This report uses CDP's latest Temperature Ratings for Indian companies (investor requested, supply chain companies and SBTi companies) to assess whether their corporate emissions reduction targets are ambitious enough to meet the Paris Agreement's goal of limiting warming to 1.5°C. CDP's Temperature Ratings compare CDP's comprehensive dataset of publicly disclosed corporate emissions target disclosures, covering 332 Indian companies, with science-based global warming trajectories.

The sample is composed of 42 companies having set a target validated by the Science-Based Target initiative (SBTi), 67 companies with a valid S12 target disclosed through CDP, and 223 companies without a valid target to be assessed (resulting in a 3.1°C default rating – see dedicated section on the next page).

The Temperature Ratings of these companies were aggregated using an Emissions Weighting approach, according to which each company's respective weighting is determined by dividing the company's GHG emissions by the total GHG emissions of all Indian companies within the sample.

Highlights: Indian companies are on a path to a 2.8°C temperature increase

Of 332 Indian companies, 223 have a default rating of

3.1°C

for scopes 1 & 2.

The results of the analysis carried out on the sample of 332 Indian companies featured in the Temperature Ratings dataset show that these companies' aggregated Scope 1+2 ambition currently results in an Implied Temperature Rise of 2.8°C. When factoring in Scope 3 emissions, ie value chain emissions, this metric reaches 3°C.

Default ratings

It is to be noted that there is a major chunk of these companies (223 out of 332) which have default scoring attached. If a company does not disclose any target data through CDP or the disclosed information was insufficient (e.g. no emissions or in-scope coverage data), a default score is applied. Currently, the default ITR rating is 3.1°C, which represents the likely level of global warming by 2100 under a "business as usual" scenario. It reflects the upper bound of the range of temperature outcomes implied by current unconditional NDCs as mentioned in the UN Emissions Gap report 2022. The default score was chosen not for its scientific accuracy but to act as a strong penalty for companies without targets.

Temperature ratings aggregated at in this paper represent the global emissions of companies headquartered in India. The CDP temperature ratings methodology, used for this analysis and made available[1] to financial institutions, is published on CDP's website.

Without valid targets, the CDP temperature rating methodology assumes that limited-to-no decarbonization by companies takes place. Where more companies have targets, the distinguishing factor is how ambitious these targets are. A valid target is one where the company reported sufficient target details for CDP to perform the temperature translation. This includes base year, target year, expected reduction in greenhouse gas emissions, and boundary coverage. For intensity targets, companies must report certain standard intensity metrics.

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[1] CDP Temperature Ratings

69%

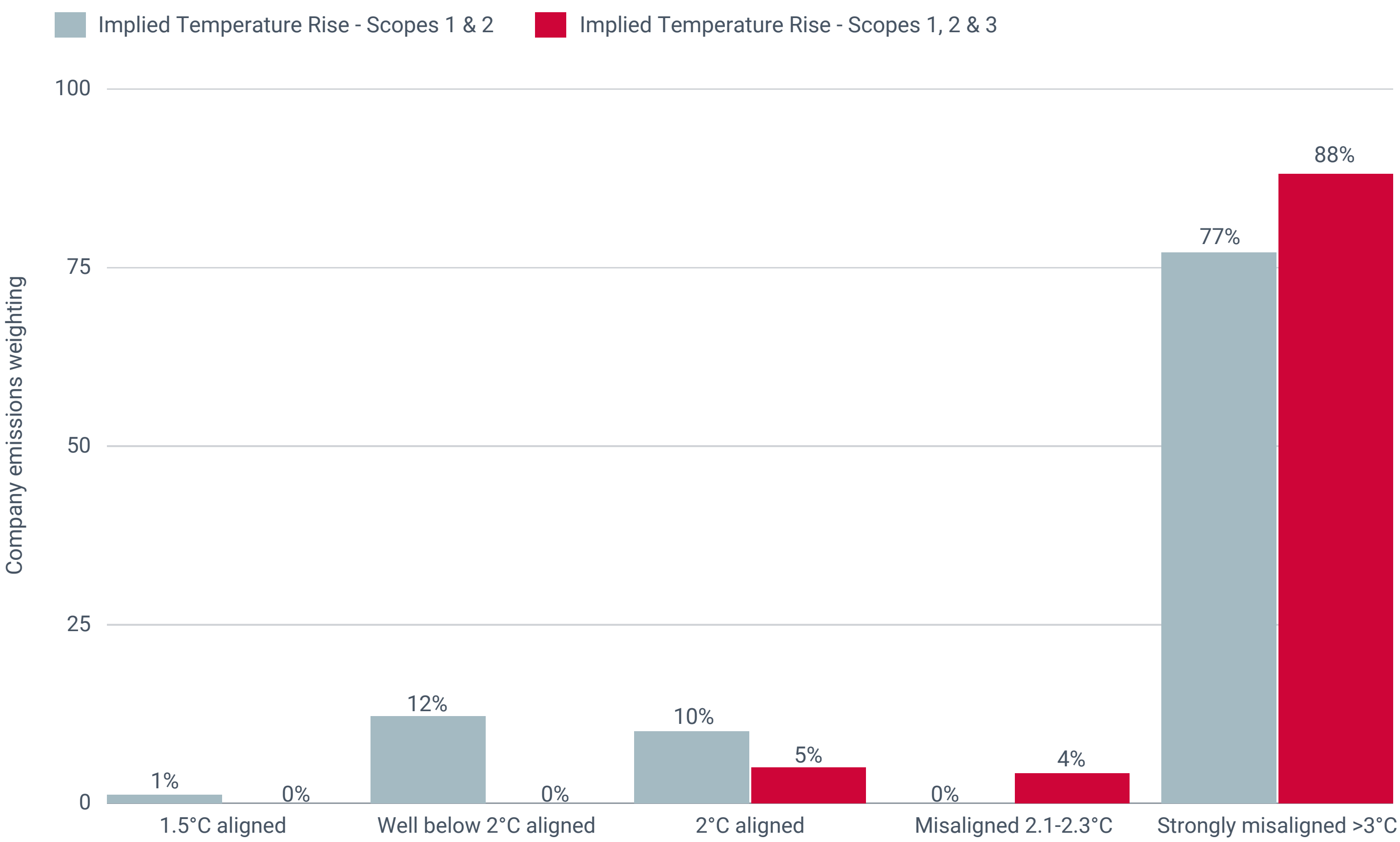
of emissions from companies with Scope 1 & 2 targets are strongly misaligned.

Even though the share of Indian companies with a default rating (67%) is very high in the sample, a further analysis focused only on non-default companies (109) reveals that the greenhouse gas emissions reduction targets publicly disclosed by companies in India align on a weighted average to a 2.6°C trajectory (Scope 1 + 2) and to a 2.7°C pathway if emissions from corporate supply chains, known as Scope 3 emissions, are included. More specifically, among companies with a valid S12 target, 69% of total company emissions weighting is considered as "strongly misaligned (> 2.3°C)".

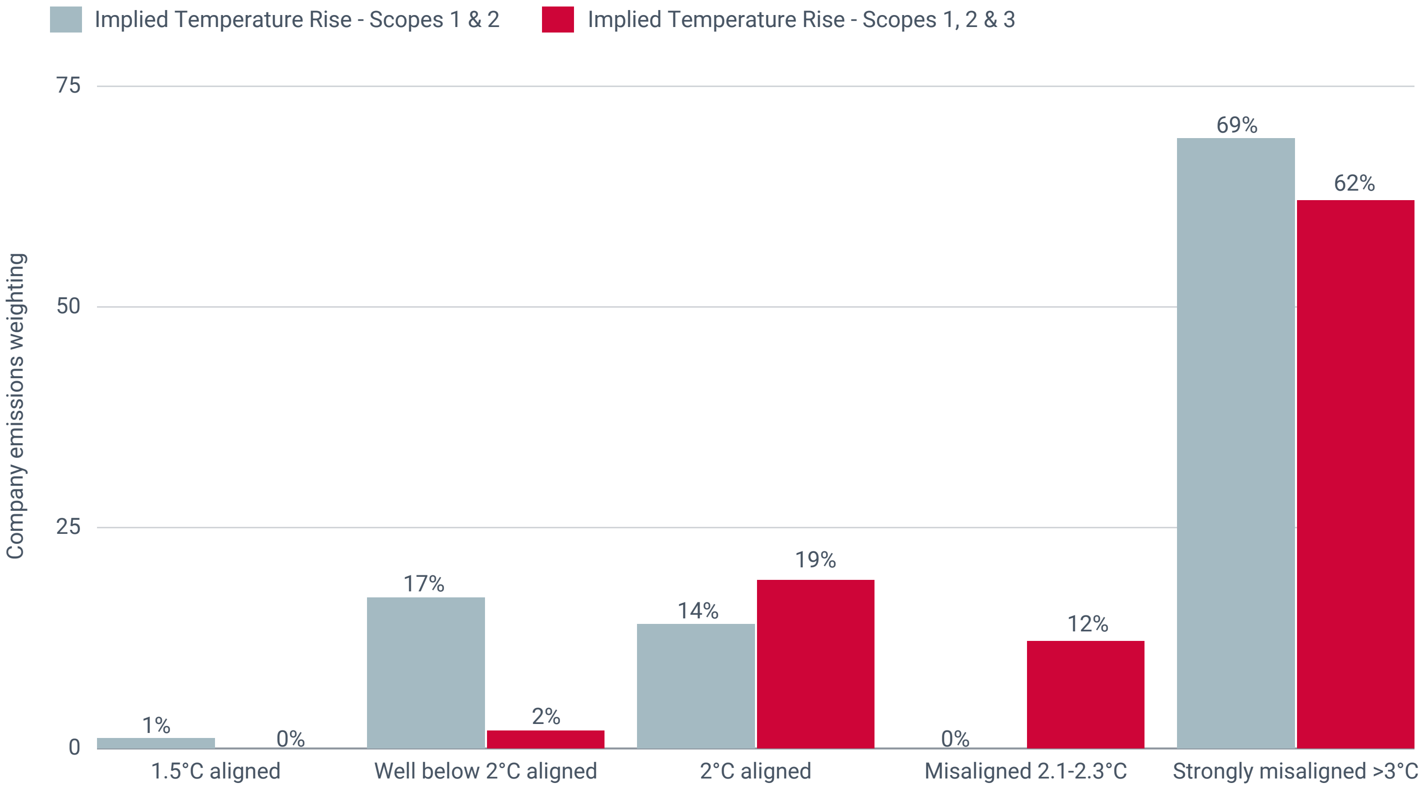
It should also be born in mind that a majority of companies in 109 sample also have a default score of 3.1°C attached for their Scope 3 emissions. This reflects the fact the majority of companies are not setting targets for their supply chain emissions.

These temperatures of 2.6°C and 2.7°C are still well above the Paris Agreement's goal to keep Earth's temperature rise at or below 1.5°C, which is the upper temperature limit that science demands to avoid the most catastrophic environmental impacts. This further highlights the fact that on top of only a low share of Indian companies currently setting valid decarbonization targets, the ambition of those who do, remains too limited to achieve the goals of the Paris Agreement.

Emissions of Indian companies within the sample (including default ratings)



Excluding default ratings, average temperatures reach 2.6°C for S12, and 2.7°C for S123 – so not a major difference overall from the results of the total universe. See below.



Sectors and their average temperature pathway

Significance for capital market players

As is evident, to achieve their net-zero commitments, financial institutions must align lending and investment portfolios with a maximum 1.5°C of warming. They rely on corporate climate progress to do so; yet only a fraction of the companies have set emissions reduction targets covering all relevant value chain emissions (Scope 1, 2 and 3).

The temperature rating helps financial institutions to find them with target-based temperature alignment scores (ITR) for thousands of companies, accompanied by GHG emission metrics and transition plan data for judging credibility. It acts as a stimulus to help investors to benchmark, communicate and reduce the temperature of their portfolios and products.

Way forward

As long as leading corporates in India are unaligned with climate goals, the capital invested in them will continue to be at risk, putting the financial sector at a high risk as well. But when companies move towards more ambitious climate action, the resultant market shift will have the potential to influence the wider economy.

Growing numbers of corporates are setting credible, science-based targets to reduce their emissions, and this is starting to have a real impact on expected emissions pathways. Importantly, this may help in spurring credible public policies.

As has been depicted in the insights from the analysis, not enough companies have embraced target setting in India and those that have are not nearly ambitious enough in their plans to reduce emissions. Most of the companies have default scoring which reflects the insincerity on their part to disclose or set their targets. The share of companies with a target validated by the SBTi remains too low (42 out of 332 companies) remains too low. Even among those with targets, there are too many that are neglecting to address Scope 3 emissions. Hence, to keep the goal of 1.5°C meaningful and viable, more progress is needed in spreading best practices from those companies that are taking the lead. At the same time, those advanced companies also must push harder for more rigor in their own targets.

Contacts

Please get in touch with our team for more information on CDP products and offerings:

CDP Capital Markets India
Huma Saif Qazi
Manager Sustainable Finance
huma.qazi@cdp.net

CDP Capital Markets APAC
Dennis Wan
Associate Director, Capital Markets (SEA & OC)
dennis.wan@cdp.net

Important notice