

A Study on Post-Effect of Tech Mahindra Inclusion in Dow Jones Sustainability Index

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Abstract

Sustainability could be defined as an ability or capacity of something to be maintained or to sustain itself. It's about taking what we need to live now, without jeopardising the potential for people in the future to meet their needs. Thus in this direction one company has taken an initiative to make world sustainable i.e. RobecoSAM, and its sustainable index. RobecoSAM is an investment specialist focused exclusively on Sustainability Investing. It publishes the globally recognized Dow Jones Sustainability Indices (DJSI). The objective of this paper to measure the effect on company's inclusion in DJSI, which provide conceptual connection between company's reputations at global as well as international level. As per latest report Tech- Mahindra an Indian company listed under the index, therefore this paper is trying analyse the post effect of announcement. This paper found three major effect of Tech Mahindra's inclusion in DJSI namely, increase in market value of shares, better performance than competitors in market in terms of market capitalization and financial performance has increased. This paper also provide future guideline to the researcher as well as to the companies who supports sustainability approach in their working.

Keywords: Competition, Dow jones sustainability index, financial performance, Sustainability, Market value,

Back Drop

Sustainability could be defined as an ability or capacity of something to be maintained or to sustain itself. It's about taking what we need to live now, without jeopardising the potential for people in the future to meet their needs. In other words it is concept of preserving future by doing right things in present. So it is long term approach which is win-win situation for present as well future. In this direction looking to the current changes happening in the world, it gives us correct time to change our future while doing something in present. For the same we have created so many such things which are destroying our future living. As a result many companies have started sustainable business development which has ignite the flame of future development with sustainability. Thus in this direction one company has taken an initiative to make world sustainable i.e. RobecoSAM, and its sustainable index. This paper is conceptual based on measuring effect on company's inclusion in DJSI. As per latest report Tech-Mahindra an Indian company listed under the index, therefore this paper is trying analyse the post effect of announcement.

According to Robecosam Corporate Sustainability

Founded in 1995, RobecoSAM is an investment specialist focused exclusively on Sustainability Investing. It offers asset management, indices, engagement, voting, impact analysis, sustainability assessments, and benchmarking services, featuring a strong track record in resource efficiency theme strategies. Together with S&P Dow Jones Indices, RobecoSAM publishes the globally recognized Dow Jones Sustainability Indices (DJSI).

Sustainability-related megatrends are changing our world and are having a measurable impact on companies' top and bottom lines. Long-term challenges such as resource scarcity, demographic shifts and climate change are redefining societal expectations, public policies, regulatory frameworks, and hence business environments and investment outcomes. Companies that anticipate and manage current and future economic, environmental and social opportunities and risks by focusing on quality, innovation and productivity will emerge

as leaders and are more likely to create a competitive advantage and long-term stakeholder value.

The quality of a company's strategy and management and its performance in dealing with opportunities and risks deriving from economic, environmental and social developments can be quantified and used to identify and select leading companies for investment purposes. For this reason, RobecoSAM has developed the Corporate Sustainability Assessment in order to help us identify those companies that are best equipped to recognize and respond to emerging opportunities and risks resulting from global sustainability trends.

Dow Jones Sustainability Indices

The Dow Jones Sustainability Indices are based on RobecoSAM's internationally recognized Corporate Sustainability Assessment methodology. The DJSI also came in first place for "having a positive impact on corporate sustainability performance " which is a testament to the effectiveness of our methodology: by focusing on sustainability factors that are financially relevant for businesses, the DJSI also serves as an effective engagement tool for enhancing corporate sustainability.

The Dow Jones Sustainability Indices were launched in 1999 as the first global sustainability benchmarks. The indices are offered cooperatively by RobecoSAM and S&P Dow Jones Indices. The family tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. The indices serve as benchmarks for investors who integrate sustainability considerations into their portfolios, and provide an effective engagement platform for companies who want to adopt sustainable best practices.

Home to iconic financial market indicators, it has over 115 years of experience constructing innovative and transparent solutions that fulfil the needs of institutional and retail investors. S&P Dow Jones Indices offers over 830,000 indices covering a wide range of assets classes across the globe, and more assets are invested in products based upon these indices than upon indices of any other provider. Each year, over 3,000 publicly traded companies are invited to participate in RobecoSAM's Corporate Sustainability Assessment. Of these, the largest 2,500 global companies by market capitalization are eligible for inclusion in the flagship DJSI World.

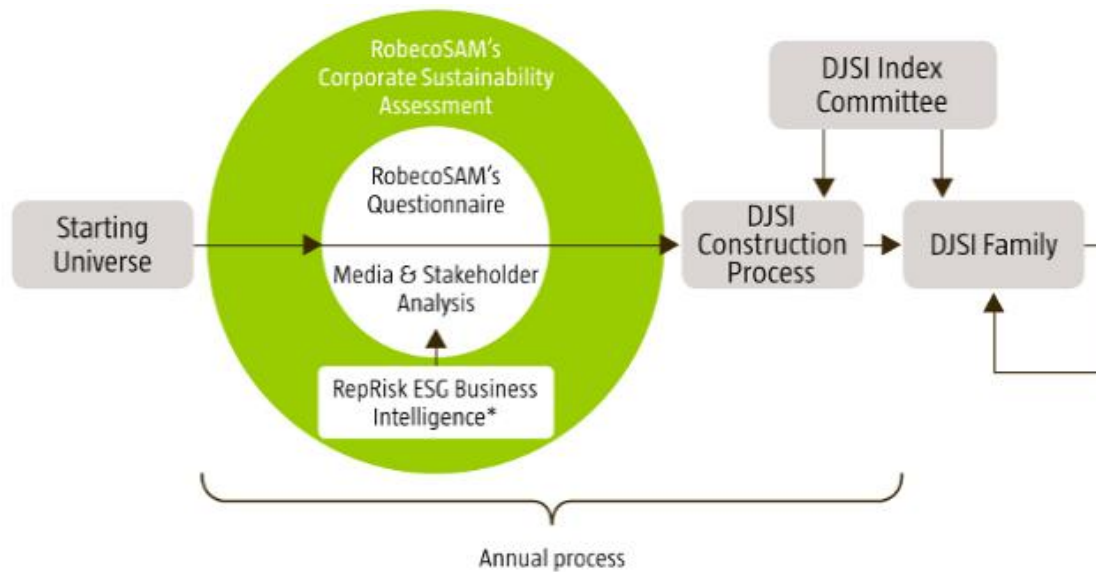


Figure 1 source: RobecoSAM website

Above given figure is process of evaluating companies to be a part of DJSI family. All the invited companies are assessed under three step by step procedure, to prepare sustainability score.

- 1) RobecoSAM's questionnaire
- 2) Media & Stakeholder Analysis
- 3) Rep & Risk ESG Business Intelligence
- 4) Review of DJSI Index Committee
- 5) DJSI family construction Process

DJSI Family

The DJSI family is offered cooperatively by RobecoSAM and S&P Dow Jones Indices. The family tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria. Only the top ranked companies in terms of Corporate Sustainability within each industry are selected for inclusion in the Dow Jones Sustainability Index family. To be included in indices institute prefers best in class approach.

Best-In-Class Approach

Because industry-specific sustainability opportunities and risks can play a key role in companies' long-term success. Aside from the selection of the sustainability leaders on the basis of clearly defined criteria, the best-in-class approach also provides RobecoSAM with the opportunity to conduct a dialogue with companies from all industries and thereby influence incremental improvements in companies' sustainability practices. Thanks to the best-in-class approach, a vibrant competition among companies for inclusion in the Dow Jones Sustainability Indices has ensued. To be included or remain in the index, companies have to continually intensify their sustainability initiatives. It believes this approach will benefit all stakeholders: investors, employees, customers and, ultimately, society and the environment. S&P Dow Jones Indices and RobecoSAM can create customized versions of the indices to meet investors' specific requirements for their unique investment objectives, including industry and country exclusions.

DJSI Family Includes

- 1) DJSI world Index
- 2) DJSI Asia-Pacific Index
- 3) DJSI Emerging Markets
- 4) DJSI Europe
- 5) DJSI North America
- 6) DJSI Australia
- 7) DJSI Korea
- 8) DJSI world Enlarged

DJSI Emerging Markets Index

From the above given DJSI family include eight index with different criteria for selection. DJSI Emerging markets includes Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Malaysia, Mexico, Morocco, Peru, the Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates. From the 800 largest emerging markets companies of S&P Global Market Index, 56 industries and 23 countries out of that Sustainability Emerging Markets Index tracks the performance of the top 10% from each sector. In Software & service Tech Mahindra is included; previously only two companies included from India namely Wipro and ITC Ltd.

Study of Tech Mahindra Sustainable Reporting

In India – September 14, 2015 – Tech Mahindra Ltd. a specialist in digital transformation, consulting and business re-engineering today announced that they have made it the Dow Jones Sustainability Indices under both Emerging Markets and DJSI World category for the first time. Tech Mahindra, Mahindra & Mahindra and Mahindra Financials Services have also successfully made it to the list from the Mahindra Group of Companies. It is one of the world's leading providers of financial market indices, and RobecoSAM, the investment specialist focused exclusively on Sustainability Investing.

Tech Mahindra is one amongst the only three Indian companies to make it to the DJSI World Index and one amongst nine companies which have made it to the DJSI Emerging markets category that comprises 92 companies from Asian economies such as China, Taiwan, and Singapore. DJSI World Index comprises of 317 companies globally picked across geographies based on their performance. Dow Jones assesses companies on both financial as well as non-financial parameters of the company.

Largest 5 Additions

(Ranked by Float Adjusted Market Capitalization as per 31 July 2015)

Name	Country	Industry Group
Cathay Financial Holding Co Ltd	Taiwan	Insurance
Advanced Info Service PCL	Thailand	Telecommunication Services
Turkiye Garanti Bankasi AS	Turkey	Banks
SACI Falabella	Chile	Retailing
Tech Mahindra Ltd	India	Software & Services

Largest 5 Deletions

(Ranked by Float Adjusted Market Capitalization as per 31 July 2015)

Name	Country	Industry Group
ITC Ltd	India	Food, Beverage & Tobacco
Malayan Banking Bhd	Malaysia	Banks
China State Construction International Holdings Ltd	China	Capital Goods
Imperial Holdings Ltd	South Africa	Retailing
Cia de Saneamento Basico do Estado de Sao Paulo	Brazil	Utilities

Figure 2 source: RobecoSAM's DJSI emerging market website

As given in the above figure Tech Mahindra Ltd. Is included as a part of emerging market index. If we see the yearly performance of company's price, it is in between 400 to 600. But at time of announcement that company has got the position in DJSI emerging market index prices were moving up word in the market, which shows company's reputation increases with the inclusion in the DJSI.

Statement of Problem

Looking from business point of view all the companies are constantly asking question why we should believe in sustainability approach. So the same question which all companies' investors might have in their mind becomes statement of the problem for this research paper.

Research Objective

With the above reason this paper focuses on the main objective, that all the companies should have sustainability approach in all their working, which not only gave us good future but also it improves financial performance as well as enhance investor's interest for long term shareholding. This research is trying to specify some of the very important aspects behind the study. The objectives behind the study are as follow.

- 1) Relevance of sustainability index, sustainability approach in the business
- 2) Consequences to be included in sustainability index
- 3) Benefits to the company to be added in world level index

Analysis & Interpretation

When it was announced to the public that TechM have made inclusion in sustainability index. The very first impact was measured in share market where company is listed in India, there was sudden increase on that same day & then after it was continuous rise in the market value of share. Than market capitalization of the company got increase against other competitors, lastly there was increase in income can be interpreted like TechM was getting more project due to enhanced reputation in the market. From the above all information there are three effects which this paper has revealed given as below, with approved data.

- 1) Market value of shares have increased.
- 2) Better performance than competitors
- 3) Increased Financial performance

Market Value of Shares

Tech Mahindra is listed company in BSE & NSE. Looking to the security performance in market for last financial year. There was sudden increase in market price due announcement,

as company have made inclusion in global sustainable index which is reputed as one of the oldest and globally recognised index. After that if we see there was continuous gain in the price only once it has touched the nearby 400 price. This fluctuation shows the positive impact of inclusion in DJSI.

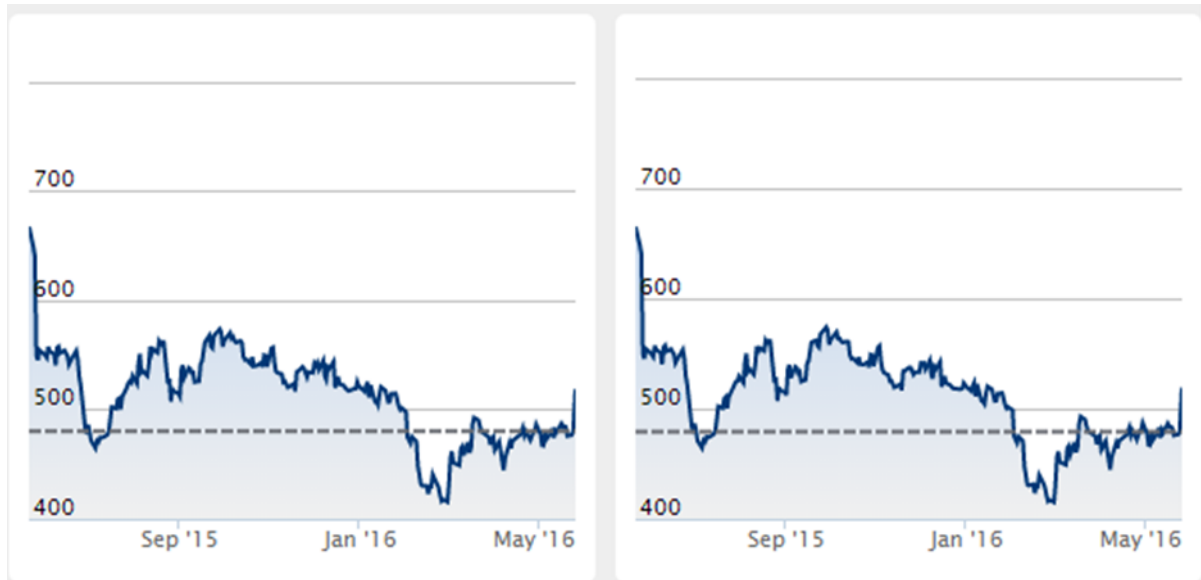


Figure 3source: NDTV profit NSE-BSE performance of script

Above given Figure -1 shows the market price performance of tech Mahindra, generally if look at price allocation it ranges from 400 to 575 in the last financial year. But major down ward trend we can find before September 2015, after that company is consciously improving in market value. Company feels proud to be included in that which is reflecting in the market performance as well.

Better Than Competitors

Another effect which found during analysis is that this company has improved their quarter performance than peer companies, which is one of the greater competitive advantage than any other. Due to increase in market value investors are purchasing more shares of the company which increases market capitalization of company among peer companies which is another effect found after analysis.

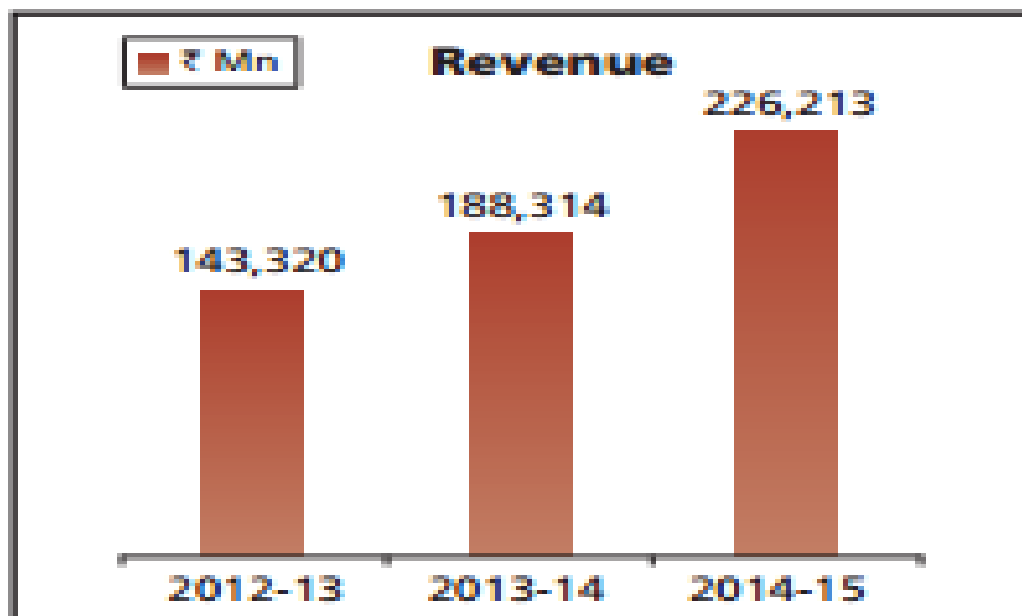


Figure 4 source: NDTV profit market capitalization of IT sector

From the above given data TechM has performed highest among their peer companies by price performance and market capitalization. It shows it has increased 8.82% than any other company in IT sector. Looking form this angle inclusion in DJSI rewarded the company by not only increase in market value of shares but also gain in competition.

Increased Financial Performance

Accepting sustainability philosophy gives u very good return as well. Third effect which I found is that it increases financial performance of the company. As compared with previous year's annual report TechM has improved a lot in terms of generating revenue. Which can be easily recognised by the following table.



Particular	2014-15	2013-14	2012-13
Revenue	226,213	188,314	143,320
Total income	227,278	189,444	145,442

Figure 5 source: annual report of TechM

Above given figure proves that during 2014-15 financial year company has improved his profit as well comparing with previous years. Company has earned 226213 million which 20% more than previous year.

Conclusion

According to the above given conceptual paper, this paper gives a way to all the other companies to support sustainability approach in their working. As Tech Mahindra has done, by proving themselves best among all competitors as well as improved financial result with increased market value. To be a part of world level sustainability index, this firm has proved that if we support this philosophy it is like win-win situation at both the end. Many Indian companies can also follow all the standard to be globally sustainable business, and can achieve sustainable development as a whole.

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