Climate Change

When climate becomes a legal risk: What Indian businesses must prepare for

Representational Image

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If the world was not already jeopardised by geo-political headwinds, there is a new risk dominating board room conversations – climate change, which has disrupted supply chains, stranded assets, and increased premia. Markets are tackling this in multiple ways and governments are doing what they do best – creating regulation.

Regimes affecting India

The Carbon Credit Trading Scheme gives each large plant in nine notified sectors a limit on how much carbon it may emit for every tonne it produces. Roughly 490 plants carry obligations for the first compliance year, a figure that rises towards 740 once targets for iron and steel and for fertiliser are finalised. Each must report its emissions annually, verified by an agency accredited by the Bureau of Energy Efficiency. Miss the target and you must buy certificates covering the shortfall. Fail to surrender them and a penalty follows at twice the certificate price.

SEBI now requires the top 500 listed companies (rising to the top 1,000 from FY2026-27) to have their sustainability disclosures independently assessed or assured. The assurance covers nine attributes: four environmental, being greenhouse gas footprint, water, energy and waste, alongside employee safety, gender diversity, inclusive development, fairness to customers and suppliers, and openness of business. SEBI defines the value chain as partners making up 75% of purchases and sales, so what does not directly apply to an unlisted MSME will increasingly arrive, as a reporting burden owed to its listed customer.

The RBI's Climate Finance Directions, in force since November 2025, require banks to implement board-approved climate policies and guard against greenwashing. A disclosure framework in development will require them to report the emissions attached to their loan books, which they will effectively transpose as borrower obligations. An unlisted cement manufacturer with no climate target and no regulatory attention is now expected to meet an obligation or give a representation on its emissions. A borrower who cannot answer will face higher pricing or, worse, become ineligible.

Finally, exporters of steel, aluminium, cement and fertiliser now face a carbon price at the EU border. Close to 90% of India's exposure sits in steel, where exporters may absorb price cuts of 15 to 22% to comply with the CBAM. Where emissions cannot be verified, default values apply with a mark-up rising from 10% in 2026 to 30% by 2028, pricing an undocumented producer as one of the dirtiest in its sector.

The exposure cuts both ways

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Early movers are converting a regulatory cost into a commercial position in three ways. The first is operating cost. Tata Steel's Ludhiana furnace is designed for under 0.3 tonnes of CO_2 per tonne of steel against an Indian average of 2.54, worth money twice over in energy today, and in headroom against its CCTS intensity limit tomorrow. The second is cost of capital. JSW Steel's sustainability-linked bond and UltraTech's sustainability-linked financing opened access to investors whose mandates bar conventional paper. The interest saving can be small, often a few basis points, but the advantage is access to more bidder pools. More lenders competing means potential for a larger raise at a tighter price. The third is market access. Verified low-carbon production is what allows an exporter to be priced on its actual emissions rather than the EU's punitive defaults.

The upside is also becoming tradeable. Under the CERC (Terms and Conditions for Purchase and Sale of Carbon Credit Certificates) Regulations, 2026 (in force since April), a plant that emits less than its notified intensity target earns a certificate for each tonne of CO_2 equivalent avoided and can sell it to a plant that exceeds. Both obligated and non-obligated entities may participate, the latter in a separate offset segment, on registering with a power exchange.

Carbon regulation in India is only going to deepen, and the gap between companies that treat it as a compliance formality and those that treat it as a strategic imperative will widen. For Indian businesses, and their boards, the question is no longer whether climate risk will become legal risk. It already has. The only real question left is how prepared each company chooses to be. The evidence is no longer abstract.

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