

# AN ANALYSIS OF CSR EXPENDITURE BY INDIAN FIRMS POST COMPANIES ACT 2013

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## ABSTRACT OF THE ARTICLE:

**Background:** The Companies Act 2013 has made expenditure on CSR mandatory for certain class of companies. The applicable companies are required to spend at least 2% of the average profits of the last three years in the ensuing year. It is claimed that India is the only country where the CSR spend is mandatory. This article focuses on the guidelines regarding CSR under the Act, Rules there under, the changes in the pattern of spending by the NIFTY companies over the last two years.

### Objectives:

- To examine CSR policies of India and CSR practices followed by selected companies in India.
- To analyse the CSR spend by the selected companies during the first two years of implementation – 2014-15 and 2015-16
- To examine the changing role of corporation in terms of CSR expenditure with government intervention
- To study whether there is any relationship between the CSR expenditure of the previous year on the PAT (Profit After Tax) of the current year

### Methodology:

- It is basically “**Secondary Research**”
- **For each of the two years (2014-15 & 2015-16)**
  - First Level, analysis of the Amount to be Spent under CSR as per regulations and the amount actually spent by each of the companies has been analysed
  - At second level, “Sectoral Analysis” of the CSR spent by these companies has been made
  - Next Analysis was the “Activities” on which each of the companies spent the CSR amount
  - Lastly, “Sector-wise Activity-Wise” analysis has been made.
- To understand if there is any change in the CSR spending pattern, Annual Report of the NIFTY Companies for the year 2013-14 were studied.
- Double Regression was run to find out if CSR spend of the previous year has any impact on the Profit After Tax (PAT) of the succeeding year

**Key Words:** Corporate Social Responsibility, Companies Act, 2013, CSR Guidelines, NIFTY, Annual Report, Sustainability

## **INTRODUCTION:**

Every company depends on various stakeholders for the smooth running of its business. In the course of their operations, they exploit the environment and other resources of the common society. Hence, it was felt by the Government of India that the companies should do some common good as a responsibility towards Society. As a sequel to this, in the Companies Act, 2013 the Government has made it mandatory for certain class of companies to spend at least 2% of their average profits towards 'Corporate Social Responsibility' (CSR). The Act also gave under Schedule VII various activities on which a Company could spend its CSR funds. Rules for implementation of this guideline were framed. Formats for reporting in the Annual Report of the company were devised. After the implementation of the guidelines, three financial years have passed by viz., 2014-15, 2015-16 and 2016-17. The study uses the information available in the Annual Reports for the years 2014-15 and 2015-16 for the purpose of analysis of CSR spend by NIFTY Companies

## **Definition and Applicability of CSR:**

“Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” - **Lord Holme and Richard Watts**

The United Nations Industrial Development Organisation (UNIDO) defines CSR as:

“Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with the stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (“Triple Bottom Line Approach”), while at the same addressing the expectations of shareholders and stakeholders”

In this context, it is worth highlighting the recent regulatory guidelines for CSR implementation in India and explore further the changes in the CSR spending pattern.



## **CSR Provisions under Companies Act 2013**

**Sec. 135. (1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board** consisting of three or more directors, out of which at least one director shall be an independent director.

*(By means of General Circular No. 21/2014 dt. 18th June 2014, the MCA has clarified that “any financial year” will imply “any of the three preceding financial years”)*

*Exceptions are provided under the Rules for certain unlisted public companies and private companies which are not required to appoint independent directors. If a private company has only two directors, the CSR committee shall consist of those two directors.*

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The **Corporate Social Responsibility Committee shall,—**

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in **Schedule VII**;

(b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall,—

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

**(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:**

**Provided** that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

**Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.**

Explanation.—For the purposes of this section "average net profit" shall be calculated in accordance with the provisions of section 198.

### **Our Interpretation on CSR spending as per the Act:**

*India is the first and the only country, as of date, to have made CSR spend "MANDATORY". Though it appears Mandatory, a close reading of Sec.135 (5) doesn't say so. It only requires a company that fails to spend such amount to only report the reasons for not spending. It follows the principle 'Comply or Explain'. Having said that, one can definitely conclude that no company which comes under the provisions would like NOT to spend but Explain since it may not go well with the stakeholders in the long run.*

### **Companies (Corporate Social Responsibility Policy) Rules 2014**

"Corporate Social Responsibility (CSR)" mean and includes, but is not limited to:

(i) Projects or programs relating to activities specified in Schedule VII to the Act ; or

(ii) Projects or programs relating to activities undertaken by the board of directors of a company (Board) in pursuance of the recommendations of CSR Committee of the Board as per the declared **CSR Policy of the company** subject to the condition that such policy will cover subjects enumerated in Schedule VII of the Act"

### **CSR Reporting**

The Board's Report of a Company covered under these rules pertaining to a financial year commencing on or after 1st day of April 2014 shall include an annual report on CSR containing particulars specified in the annexure.

The Board approved CSR Policy of the company shall be displayed in the company's website.

*CSR Rules provide FORMAT FOR THE ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD'S REPORT. The Research has found that in most of the cases, this report has been included in the Annual Report by the NIFTY companies.*

*It is evident from the above regulatory guidelines that the objectives of the mandatory CSR guidelines of Government of India concur broadly with the definition of UNIDO.*

**Sustainability:** Another word which is frequently found in the Annual Reports of Companies abroad is 'Sustainability'. They do not speak much about "CSR". Importance is given to 'Sustainability Reporting'.

*The WCED definition assumes that development is sustainable if companies' present needs can be met "without compromising the ability of future generations to meet their own needs" (World Commission on Economic Development, 1987, p. 43).*

**"Sustainable Development"** Process of achieving human development in an inclusive, connected, equitable, prudent, and secure manner.

Sustainable development components are

1. Inclusiveness (environmental and human systems, near and far, present and future);
2. Connectivity (world's problems interconnected and interdependent);
3. Equity (fair distribution of resources and property rights);
4. Prudence (duties of care and prevention);
5. Security (safety from chronic threats) (p. 878). (Gladwin and Kennelly (1995))

**Corporate Sustainable Development (CSD):** Introduces the new CSD construct based on three principles: 1. Economic integrity; 2. Social equity; 3. Environmental integrity (p. 198) (Bansal (2005))

**CSR Vs Sustainability:** They are complementary to each other. As a part of CSR strategy, a company may spend money towards Sustainability Activities. While CSR is comparatively a short term oriented approach Sustainability is a long term one.

**Research Gaps:** To the best of our knowledge, this is a new and emerging area with limited empirical studies available in the existing literature.

**In the backdrop of the above discussions, the study intends to explore the below objectives:**

1. To examine CSR policies of India and CSR practices followed by selected companies in India.
2. To analyse the CSR spend by the selected companies during the first two years of implementation – 2014-15 and 2015-16
3. To examine the changing role of corporation in terms of CSR expenditure with government intervention.
4. To study whether there is any relationship between the CSR expenditure of the previous year on the PAT (Profit After Tax) of the current year

*In relation to objectives 1, 2 and 3 the study adopts descriptive analysis and for the objective 4 we have adopted a statistical tool – Log Linear Regression*

### **Methodology:**

Keeping in view the objectives of the study, the following methodology has been adopted:

- Identified the Companies covered in the NIFTY Index for the study The reason is that these 50 companies comprise of the majority of the top companies of India and it also covers a wide range of industries from Automobile to Information Technology to Banking. **It covers 13 sectors of the economy.**
- It is basically "Secondary Research"
- The data has been taken from the published Annual Reports of the NIFTY companies. These Annual Reports were sourced from the websites of these companies.

- **For each of the two years (2014-15 & 2015-16)**
  - First Level, analysis of the Amount to be Spent under CSR as per regulations and the amount actually spent by each of the companies has been analysed
  - At second level, “Sectoral Analysis” of the CSR spent by these companies has been made
  - Next Analysis was the “Activities” on which each of the companies spent the CSR amount
  - Lastly, “Sector-wise Activity-Wise” analysis has been made.
- To understand if there is any change in the CSR spending pattern, Annual Report of the NIFTY Companies for the year 2013-14 were studied.
- Log Linear Regression was run to find out if CSR spend of the previous year has any impact on the Profit After Tax (PAT) of the succeeding year

### **Findings from the Analysis of the Amount spent on CSR by the NIFTY Companies during 2014-15 and 2015-16:**

Following tables give the company wise/industry sector wise/Ownership wise data on the CSR spend for the year 2014-15 and 2015-16:

**Table 1: Company wise analysis of the CSR spend for 2014-15**

Company Name	Indy Sector	Average of 3 years Profits Rs.Crores	2% of Avg	Actual Amt spent	Amount unspent
Mahindra & Mahindra Ltd.	Automobile	4,151.74	83.03	83.24	-0.21
Bajaj Auto Ltd.	Automobile	4,316.49	86.33	42.91	43.42
Maruti Suzuki India Ltd.	Automobile	2505.30	50.11	37.25	12.86
Hero Motocorp Ltd.	Automobile	2202.00	44.04	2.41	41.63
Bosch Ltd.	Automobile	1359.40		10.34	-10.34
Tata Motors Ltd.	Automobile			18.62	-18.62
Eicher Motors Ltd	Automobile				
Ultratech Cement Ltd.	Cements	3076.00	61.51	44.46	17.05
Ambuja Cements Ltd.	Cements	1696.00	34.00	38.40	-4.40
A C C Ltd.	Cements	1360.00	27.20	27.45	-0.25
Grasim Industries Ltd.	Cements	1002.00	20.00	16.71	3.29
I T C Ltd.	Cons goods	10646.11	212.92	214.06	-1.14
Hindustan Unilever Ltd.	Cons goods	3990.93	79.82	82.35	-2.53
Asian Paints Ltd.	Cons goods	1493.73	29.87	19.01	10.86
Larsen & Toubro Ltd.	Construction	5310.29	106.21	76.54	29.67
Oil & Natural Gas Corpn. Ltd.	Energy	33030.00	660.61	495.23	165.38
Reliance Industries Ltd.	Energy	26648.00	532.96	760.58	-227.62
N T P C Ltd.	Energy	14173.78	283.48	205.18	78.30
G A I L (India) Ltd.	Energy	5933.37	118.67	41.36	77.31
Power Grid Corpn. Of India Ltd.	Energy	5525.53	110.51	47.42	63.09
Bharat Petroleum Corpn. Ltd.	Energy	3800.53	76.01	33.95	42.06
Tata Power Co. Ltd.	Energy	1491.70	29.80	31.13	-1.33
State Bank Of India	FS	18257.21	365.14	115.80	249.34
I C I C I Bank Ltd.	FS	169.22	3.39	3.39	0
H D F C Bank Ltd.	FS	9856.35	197.13	118.55	78.58

Axis Bank Ltd.	FS	6688.67	133.77	123.22	10.55
Housing Development Finance Corpn. Ltd.	FS	6130.73	122.61	49.18	73.43
Bank Of Baroda	FS	5593.16	111.86	17.83	94.03
Kotak Mahindra Bank Ltd.	FS	1959.79	39.20	11.97	27.23
Yes Bank Ltd.	FS	1901.35	38.02	15.71	22.31
Indusind Bank Ltd.	FS	1632.45	32.64	17.53	15.11
Bharat Heavy Electricals Ltd.	Indl Mfg	8222.33	165	102.06	62.94
Tech Mahindra Ltd.	IT	1544.00	30.88	50.50	-19.62
Tata Consultancy Services Ltd.	IT	14250.00	285.00	219.00	66.00
Infosys Ltd.	IT	12133.00	243.00	239.54	3.46
Wipro Ltd.	IT	6415.40	128.30	132.70	-4.40
H C L Technologies Ltd.	IT	4499.27	89.99	6.16	83.83
Zee Entertainment Enterprises Ltd.	Media	965.80	19.30	16.80	2.50
Coal India Ltd.	Metals	1202.12	24.04	24.72	-0.68
Tata Steel Ltd.	Metals	8412.82	168.26	171.46	-3.20
Hindalco Industries Ltd.	Metals	1741.94	34.84	32.42	2.42
Lupin Ltd.	Pharma	1981.70	39.63	12.58	27.05
Dr. Reddy'S Laboratories Ltd.	Pharma	1830.78	36.61	29.17	7.44
Cipla Ltd.	Pharma	1743.21	34.86	13.43	21.43
Sun Pharmaceutical Inds. Ltd.	Pharma			4.67	-4.67
Aurobindo Pharma Ltd	Pharma	699.20	13.98	8.13	5.85
Adani Ports & Special Economic Zone Ltd.	Services	1790.00	35.79	35.90	-0.11
Bharti Airtel Ltd.	Telecom	6998.60	140.00	41.10	98.90
Idea Cellular Ltd.	Telecom	1578.72	31.58	0	31.58
Bharti Infratel Ltd	Telecom	960.00	19.20	17.30	1.90
<b>Grand Total</b>		<b>262870.72</b>	<b>5231.11</b>	<b>3959.42</b>	<b>1271.69</b>

Source: Annual Reports of the respective companies

**Table 2: Company wise analysis of the CSR spend for 2015-16**

Company Name	Indy Sector	Average of 3 years Profits Rs.Crores	2% of Avg	Actual Amt spent	Amount unspent
Mahindra & Mahindra Ltd.	Automobile	4,247.45	84.95	85.90	-0.95
Bajaj Auto Ltd.	Automobile	4,323.05	86.46	86.72	-0.26
Maruti Suzuki India Ltd.	Automobile	3,269.10	65.40	78.46	-13.06
Hero Motocorp Ltd.	Automobile	2,909.05	58.18	65.00	-6.82
Bosch Ltd.	Automobile	1,462.20	29.24	19.71	9.53
Tata Motors Ltd.	Automobile			20.57	-20.57
Eicher Motors Ltd	Automobile	417.79	8.36	8.99	-0.63
Ultratech Cement Ltd.	Cements	2891.00	57.82	50.89	6.93
Ambuja Cements Ltd.	Cements	1731.96	34.64	40.98	-6.34
A C C Ltd.	Cements	1395.20	27.90	31.16	-3.26

Grasim Industries Ltd.	Cements	791.00	15.82	15.05	0.77
I T C Ltd.	Cons goods	12,338.22	246.76	247.52	-0.76
Hindustan Unilever Ltd.	Cons goods	4,597.07	91.94	92.12	-0.18
Asian Paints Ltd.	Cons goods	1687.55	33.75	34.44	-0.69
Larsen & Toubro Ltd.	Construction	5073.00	101.46	119.89	-18.43
Oil & Natural Gas Corpn. Ltd.	Energy	29684.80	593.70	421.00	172.7
Reliance Industries Ltd.	Energy	27889.00	557.78	651.57	-93.79
N T P C Ltd.	Energy	13567.43	349.65	491.80	-142.15
G A I L (India) Ltd.	Energy	5117.05	102.34	160.56	-58.22
Power Grid Corpn. Of India Ltd.	Energy	6089.71	121.79	115.78	6.01
Bharat Petroleum Corpn. Ltd.	Energy	5629.89	112.60	95.59	17.01
Tata Power Co. Ltd.	Energy	1414.74	28.29	29.01	-0.72
State Bank Of India	FS	12699.24	253.98	143.92	110.06
I C I C I Bank Ltd.	FS	10605.00	212.00	172.00	40.00
H D F C Bank Ltd.	FS	12385.00	248.00	194.81	53.19
Axis Bank Ltd.	FS	8151.34	163.03	137.41	25.62
Housing Development Finance Corpn. Ltd.	FS	6962.95	139.26	85.70	53.56
Bank Of Baroda	FS	4140.07	82.80		82.80
Kotak Mahindra Bank Ltd.	FS	2366.37	47.33	16.41	30.92
Yes Bank Ltd.	FS	2387.00	47.75	29.52	18.23
Indusind Bank Ltd.	FS	2137.95	42.76	27.32	15.44
Bharat Heavy Electricals Ltd.	Indl Mfg	5501.63	110.03	66.20	43.83
Tech Mahindra Ltd.	IT	2070.10	41.40	46.91	-5.51
Tata Consultancy Services Ltd.	IT	17994.00	360.00	294.00	66.00
Infosys Ltd.	IT	12800.00	256.01	202.30	53.71
Wipro Ltd.	IT	7800.20	156.00	159.80	-3.80
H C L Technologies Ltd.	IT	6106.44	122.13	12.36	109.77
Zee Entertainment Enterprises Ltd.	Media	1107.10	22.14	22.83	-0.69
Coal India Ltd.	Metals	984.59	19.69	73.26	-53.57
Tata Steel Ltd.	Metals	7518.00	150.00	204.00	-54.00
Hindalco Industries Ltd.	Metals	1549.99	31.00	34.15	-3.15
Lupin Ltd.	Pharma	2707.26	54.15	20.51	33.64
Dr. Reddy'S Laboratories Ltd.	Pharma	2094.44	41.89	41.20	0.69
Cipla Ltd.	Pharma	1789.89	35.80	20.48	15.32
Sun Pharmaceutical Inds. Ltd.	Pharma			11.65	-11.65
Aurobindo Pharma Ltd	Pharma	1410.95	28.22	18.76	9.46
Adani Ports & Special Economic Zone Ltd.	Services	2020.17	40.40	40.81	-0.41
Bharti Airtel Ltd.	Telecom	9450.20	189.00	53.47	135.53
Idea Cellular Ltd.	Telecom	2744.33	54.89	18.47	36.42
Bharti Infratel Ltd	Telecom	1275.40	25.50	21.00	4.50
<b>Grand Total</b>		<b>285285.87</b>	<b>5783.99</b>	<b>5131.96</b>	<b>652.03</b>

Source: Annual Reports of the respective companies

**Note:**

1. There was a change in the list of companies constituting the NIFTY Index in the year 2015-16. To have uniformity and meaningful comparison, we have taken the latest NIFTY Companies list for the year 2014-15 also.

2. The figures of the average profits of the past 3 years and 2% of the average profits were not available in the Annual Reports of SBI and Bank of Baroda. These figures have been incorporated by taking Total Revenue, Total Expenses and the Income Tax Provision from the CMIE data base and the PBT has been arrived as Total Revenue minus Total Expenses plus Income Tax Provision. This method was adopted due to lack of other data required for calculation as per Sec.198 of the Companies Act, 2013.

3. Eicher Motors Ltd changed the year ending and hence no need to spend on CSR during the year 2014-15

4. For Bosch Ltd - No amount payable during the year 2014-15. Applicable from next year only as the current period is Jan 2014 to 31.03.2015

5. *Companies Tata Motors Ltd and Sun Pharmaceuticals have spent on CSR though they need not do statutorily as they have incurred losses.*

6. In the year 2015-16, Bank of Baroda did not spend any amount on CSR since they incurred losses

7. Maruti Suzuki Ltd during the year 2015-16 spent the 12.86 Crores Unspent of previous year

8. In the case of NTPC and Bharat Petroleum Ltd the figures include the carry forward of unspent amount of the previous year

9. The amount spent shown for Infosys Ltd for the year 2015-16 does not include Rs.86 crores spent for the Chennai flood relief and other long term projects

**Amount Unspent:** Of the 50 Companies, in the year 2014-15, 33 Companies representing 66% have not spent the required amount as per CSR guidelines. This figure improved during the second year of implementation ( 2015-16) wherein the figure reduced to 26 Companies (52%) which shows better compliance

**Companies that have provided more than the Statutory Minimum of 2%:** In 2014-15, 15 companies spent more than the statutory minimum of 2% (many of them though marginally). The figure for the year 2015-16 is 24 companies Highest amount in the year 2014-15 was spent by Reliance Industries Ltd (Rs.227.62 Crores more than the required minimum). During the second year, it was NTPC which spent Rs.142.15 Crores more than the required 2%

**Highest and Lowest in terms of Amount:** *Reliance Industries Ltd holds the pride place of highest amount in both the years (Rs.760.58 Crores and Rs.651.57 Crores respectively).* The lowest amount of Rs.2.41 crores was spent by Hero Motocorp Ltd in the year 2014-15 and it was Eicher Motors Ltd Rs.8.99 Crores during the second year (However this amount was still more than Eicher Motors Ltd statutory spend requirement).

**No Amount spent despite requirement:** It was surprising to note that Idea Cellular Ltd did not spend any amount during the year 2014-15 though it had to spend Rs.31.58 Crores

**Amount Spent on CSR despite loss:** It is heartening to note that Tata Motors Ltd and Sun Pharmaceuticals Ltd spent amounts on CSR despite incurring losses and were not required to spend during the years 2014-15 and 2015-16.

**Public Sector Vs Private Sector:** Of the 50 Companies 9 were in Public Sector (18%) and 41 (82%) were in the Private Sector. *Total Amount spent by the Public Sector Companies* during the first year was Rs.1,083.55 crores (27.37% of the total of NIFTY Companies). The figures for the second year was Rs.1,568.11 Crores (30.56% of the total). There has been increase both in terms of amount spent and the percentage to the total in the case of Public Sector Units. The balance amounts were contributed by the Private Sector, respectively, in both the years.



**Industry-wise Analysis:****Table 3: Sectoral analysis of the CSR spend for 2014-15**

Sl	Sector	No. of companies	Total CSR Amount spent	Per cent to the total spent by NIFTY cos	Intra Industry Company Average of CSR amount
1	Automobile	7	194.77	4.92	27.80
2	Cements	4	127.02	3.21	31.80
3	Cons goods	3	315.42	7.97	105.10
4	Construction	1	76.54	1.93	76.54
5	Energy	7	1614.85	40.79	230.70
6	FS	9	473.18	11.95	52.60
7	Indl Mfg	1	102.06	2.58	102.06
8	IT	5	647.90	16.36	129.60
9	Media	1	16.80	0.42	16.80
10	Metals	3	228.60	5.77	76.20
11	Pharma	5	67.98	1.72	13.60
12	Shipping & Port	1	35.90	0.91	35.90
13	Telecom	3	58.40	1.47	19.50
		50	3959.42	100.00	

**Table 4: Sectoral analysis of the CSR spend for 2015-16**

Sl	Sector	No. of companies	Total CSR Amount spent	Per cent to the total spent by NIFTY cos	Intra Industry Company Average of CSR amount
1	Automobile	7	365.35	7.12	52.20
2	Cements	4	138.08	2.69	34.50
3	Cons goods	3	374.08	7.29	124.70
4	Construction	1	119.89	2.34	119.89
5	Energy	7	1965.31	38.30	280.80
6	FS	9	807.09	15.73	89.70
7	Indl Mfg	1	66.20	1.29	66.20
8	IT	5	715.37	13.94	143.10
9	Media	1	22.83	0.44	22.83
10	Metals	3	311.41	6.07	103.80
11	Pharma	5	112.60	2.19	22.50
12	Shipping & Port	1	40.81	0.80	40.80
13	Telecom	3	92.94	1.81	31.00

		50	5131.96	100.00	
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- In both the years Energy Sector comprising 7 Companies had spent the *maximum amount* of Rs.1,614.85 Crores (40.79%) and Rs.1,965.31 Crores (38.30%) respectively. The *minimum amount* of Rs.16.80 Crores (0.42%) and Rs.22.83 Crores (0.44%) was in the Media Sector represented by only one company Viz., Zee Entertainment Enterprises Ltd.

### Activity-wise Analysis:

**Table 5: Industry wise Activity analysis of the CSR spend for 2014-15**

Sl	Industry	A1	A2	A3	A4	A5	A6	A7	A8	A10	A11	Total
		38.97	92.05	1.32	9.30	2.00	0.10	0.97	23.03	16.52	10.51	194.77
1	Automobile	20.01	47.26	0.68	4.77	1.03	0.05	0.50	11.82	8.48	5.40	100.00
		30.34	41.99	11.88	4.14	4.63	0	0.27	0	26.33	7.44	127.02
2	Cements	23.89	33.06	9.35	3.26	3.65	0.00	0.21	0.00	20.73	5.86	100.00
		32.61	84.88	58.32	81.95	21.42	0.01	20.17	0	16.06	0	315.42
3	Cons Goods	10.34	26.91	18.49	25.98	6.79	0.00	6.39	0.00	5.09	0.00	100.00
		9.14	59.49		3.61				3.60		0.70	76.54
4	Construction	11.94	77.72	0.00	4.72	0.00	0.00	0.00	4.70	0.00	0.91	100.00
		677.63	99.12	35.15	295.05	1.59	0	25.28	0	144.89	336.14	1614.85
5	Energy	41.96	6.14	2.18	18.27	0.10	0.00	1.57	0.00	8.97	20.82	100.00
		88.15	244.94	4.28	23.23	0	0.01	0.18	0.06	83.09	29.24	473.18
6	Finl Services	18.63	51.76	0.90	4.91	0.00	0.00	0.04	0.01	17.56	6.18	100.00
		50.45	37.42	1.87	1.97	0.80	0	0.04	0	5.64	3.87	102.06
7	Indl.Mfg	49.43	36.66	1.83	1.93	0.78	0.00	0.04	0.00	5.53	3.79	100.00
		129.82	282.10	4.75	38.31	5.40			1.49	7.04	178.99	647.90
8	IT	20.04	43.54	0.73	5.91	0.83			0.23	1.09	27.63	100
		1.26	12.44	0.25						2.70	0.15	16.80
9	Media	7.50	74.05	1.49						16.07	0.89	100.00
		69.28	101.89	5.60	8.27	5.06	0	8.61	0	20.62	9.27	228.60
10	Metals	30.31	44.57	2.45	3.62	2.21	0.00	3.77	0.00	9.02	4.06	100.00
		24.66	29.07	0.41	0.84	0	0	0	0.05	11.06	1.89	67.98
11	Pharma	36.28	42.76	0.60	1.24	0.00	0.00	0.00	0.07	16.27	2.78	100.00
		5.66	14.66					0.15	1.00	14.43		35.9
12	Shipping	15.77	40.84					0.41	2.79	40.19		100
		2.25	36.80	0	0	0	0	0	0.25	0	19.10	58.40
13	Telecom	3.85	63.01	0.00	0.00	0.00	0.00	0.00	0.43	0.00	32.71	100.00
		1160.20	1136.90	123.80	466.67	40.90	0.12	55.67	29.48	348.38	597.3	3959.42

	%	29.30	28.71	3.13	11.79	1.03	0.003	1.41	0.74	8.80	15.09	100.00
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**Table 6: Industry wise Activity analysis of the CSR spend for 2015-16**

Sl	Industry	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	A11	A12	Total
		61.30	198.48	14.90	26.26	0.60	0.07	0.25	19.53		29.67		14.33	365.35
1	Automobile	16.78	54.33	4.07	7.19	0.16	0.02	0.07	5.35		8.12		3.92	100.00
		40.20	43.49	6.68	14.09	4.91	0	0.95	0.37		22.31		5.08	138.08
2	Cements	29.11	31.50	4.84	10.20	3.56	0.00	0.69	0.27		16.16		3.68	100.00
		87.76	114.71	20.10	94.64	0.93	0	0	0		55.93		0	374.08
3	Cons Goods	23.46	30.66	5.38	25.30	0.25	0.00	0.00	0.00		14.95		0.00	100.00
		13.44	43.40		2.53				60.00				0.52	119.89
4	Construction	11.21	36.20		2.11				50.05					100.00
		612.47	693.62	7.39	61.54	8.41	0	23.24	0		404.03		154.60	1965.31
5	Energy	31.16	35.29	0.38	3.13	0.43	0.00	1.18	0.00		20.56		7.87	100.00
		267.83	182.53	9.26	59.74	1.85	0.16	3.48	6.65		265.46		8.15	807.09
6	Finl Services	33.18	22.62	1.15	7.40	0.23	0.02	0.43	0.82		32.89		1.01	100.00
		8.91	43.84	1.71	4.59	0.33		0.13		0.24	2.26		4.19	66.20
7	Indl.Mfg	13.46	66.22	2.58	6.93	0.50	0	0.20	0.00	0.36	3.41		6.33	100.00
		127.61	274.62	14.20	59.38	7.34	0	0	4.44		60.94		166.90	715.37
8	IT	17.84	38.39	1.98	8.30	1.03	0.00	0.00	0.62		8.52		23.32	100.00
		1.26	20.07								1.50			22.83
9	Media	5.52	87.91	0.00	0.00	0	0	0	0.00		6.57		0.00	100
		144.18	93.75	3.61	22.16	6.07	0.50	6.49	0		23.77		10.92	311.45
10	Metals	46.29	30.10	1.16	7.12	1.95	0.16	2.08	0.00		7.63		3.51	100.00
		42.48	50.31	0.09	2.39	0	0	0.17	0		13.01		4.15	112.60
11	Pharma	37.73	44.68	0.08	2.12	0.00	0.00	0.15	0.00		11.55		3.69	100.00
		4.75	28.15					0.69			7.22			40.81
12	Shipping	11.64	68.98					1.69			17.69			100.00
		27.61	50.77	0.20	0.40	0	0	0	0		0		0.39	79.37
13	Telecom	34.79	63.97	0.25	0.50	0.00	0.00	0.00	0.00		0.00		0.49	100.00
		1439.80	1837.74	78.10	347.72	30.44	0.73	35.40	90.99	0.24	886.10	0.00	369.19	5118.43
	%	28.14	35.94	1.53	6.79	0.59	0.01	0.69	1.78	0.00	17.31	0.00	7.21	100.00

**Activity Details:**

Item	Details of the activities covered as per Schedule VII
A1	Eradicating extreme hunger & Poverty, promoting preventive healthcare & sanitation

A2	Promotion of Education, Employment enhancing vocational skills, etc.
A3	Promoting Gender Equality & empowering women, Old age homes, Day care centres, etc
A4	Ensuring Environmental Sustainability
A5	Protection of national heritage, art and culture
A6	Measures for the benefit of armed forces veterans, war widows and their dependents;
A7	Training to promote rural sports, nationally recognised sports, etc.
A8	Contribution to the Prime Minister's National Relief Fund and other funds of Central/State Govt
A9	Contributions or funds provided to technology incubators, etc.
A10	Rural Development Projects
A11	Slum Area Development
A12	Others

### Top Three Activities where the amounts were spent:

Activity	Amount Spent (Rs. In Crores)		% to the Total Spend	
	204-15	2015-16	204-15	2015-16
Eradicating Extreme Hunger & Poverty, Preventive Health Care, Sanitation, etc.	1,160.22	1,439.80	29.30	28.13
Promotion of Education, Employment Enhancing Vocational Skills, etc.	1,136.85	1,837.74	28.71	35.90
Ensuring Environmental Sustainability	466.67	347.72	11.79	6.79
Rural Development Projects	348.38	886.10	8.80	17.31

*While in the first year, Health and Sanitation activity held the prime place and the Education second place, in the second year they changed the places. It might be observed in the first year 58% of the funds were spent for Health and Education and it was 64.03% in the year 2015-16. The amount spent on these two activities shows that both these issues (Health and Education) are a concern for India and rightly the companies are focusing on these two activities. Other two activities that have caught the attention of the companies are Environmental sustainability and Rural Development Projects.*

The least amount spent was on the Prime Minister's National Relief Fund (Rs.29.48 Crores – 0.74%) during the first year and contribution to technology incubators in the second year (Rs.0.24 crores – negligible).

*The apprehension that all companies would contribute substantial amount to PM/CM Relief funds under CSR and also get tax exemption has been allayed. In the second year the amount and percentage contributed towards this activity was R.90.99 Crores – 1.78%.*

### Statistical Analysis of the effect of CSR spend on the Profit After Tax (PAT):

**Empirical relationship:** While explaining the empirical relationship between PAT and CSR expenditure, the study assumes that the PAT of current year depends on the CSR expenditure of the previous year. Though it may be possible that the PAT may depend on the CSR expenditures of earlier years as well, the data available permits us to use only one lag year\*. The study further assumes a log linear relationship between both the variables and estimates the equation specified below:

$$\text{Log PAT 15-16} = \alpha + \beta \log \text{CSR 14-15} \dots\dots\dots \text{Equation ( 1 )}$$

The database comprises of 48 companies (other two companies incurred losses or not required to spend on CSR that year) spreading across 12 industrial sectors. Thus while estimating the equation (1) the study uses 12 sector specific dummies.

The regression results of the above the estimable equation 1 is as below:

\* CSR was made mandatory w.e.f. 1.4.2014. We have used the CSR spend of 2014-15 and studied its impact on the Profit After Tax of 2015-16. Annual Reports for the year 2016-17 not yet published.

	<b>Coefficients</b>	<b>t Stat</b>
Intercept	0	#N/A
CSR_LN	0.76	6.16
Automobile	4.72	9.11
Cements	4.30	7.92
Cons goods	4.87	7.16
Construction	4.96	5.52
Energy	4.79	6.95
FS	5.55	9.60
IT	5.44	8.56
Media	4.39	5.63
Metals	4.89	7.34
Pharma	5.03	10.48
Services	5.14	6.29
Telecom	5.68	10.06
F: 535.52 (Significant at 1% level)	Adj. R Square:0.96	No. of observations:48  Degree of Freedom: 35

**Note: All estimated co efficient are significant at 1% level**

It is evident from the above regression results that 1% increase in the CSR spending would result in 0.76% increase in the Profit After Tax of the subsequent year. The results indicate a positive and significant relationship between the two variables. Further, it is worth noting that the slope co-efficient as well as the intercept for various sectors has expected sign and also significant at 1% level.

### **Changes in the CSR spending pattern post Companies Act, 2013:**

- For this objective, we studied the Annual Report of the year just before the implementation of the Act viz., 2013-14
- With effect from 1.1.2013, top 100 Listed Companies were required to furnish **Business Responsibility Report** as part of their Annual Reports. Under Section B 'Financial Details of the Company', Item Nos 4 & 5 related to CSR expenditure. Item No. 4 read 'Total Spending on Corporate Social Responsibility (CSR) as percentage of profit after tax (%)' and Item No. 5 'List of activities in which expenditure in 4 above has been incurred (a, b, c – Three main activities)'
- From the study of Business Responsibility Reports the following conclusions were drawn:
  - Earlier, there was no detailed format which has since been prescribed under the Companies Act, 2013. Each company was reporting in their own way.

- It was voluntary activity undertaken by the companies and government did not prescribe any guidelines regarding the companies which come under the ambit of compulsory CSR spend, the amount of CSR spend and suggestive activities where CSR amount can be spent
- **Even during the voluntary regime**, a few companies were spending more than 2% of their Net Profits as CSR expenditure. Top four Companies were – Tata Motors (5.17%), Ambuja Cements Ltd (4.06%), Tata Steel (3.31%) and Reliance Industries Ltd (3.24%)
- **23 Companies had not furnished the Amount spent on CSR activity** since the requirement was only 'Spending on CSR as a % of Net Profits'
- 7 Companies had not given even the % though it was required as per SEBI guidelines
- In the case of 7 Companies CSR Committee was not yet formed
- Health, Education, Environment and Rural Development were the main four activities where the CSR amount was spent.

### **CONCLUSION:**

India is the only country where CSR spending has been made mandatory for a certain class of companies. Three years have since passed after the implementation of the new CSR guidelines. With the analysis of two years' data, we could find that all the companies have taken these guidelines in a positive way. Majority of the companies have spent money on the Health and Education sectors which is the need of the hour. The pre conceived notion that companies will shirk this responsibility by donating CSR funds to the PM/CM National Relief Fund has been proved wrong. Definitely participation by the corporate sector in the government's efforts to improve the living conditions of the lower strata of the society has helped in faster implementation of government's plans. In a couple of years the expenditure on major projects which are still under progress will result in great results towards improving the standard of living of the people and the infra structure of the economy.

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