

Corporate Social Responsibility: Taking root

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IiAS believes that corporates are embracing Corporate Social Responsibility (CSR) enthusiastically. Although the spend was 26% lower than the prescribed amount, the S&P BSE 100 companies spent Rs.52.4 bn on CSR in FY15 up almost 75% from Rs.30.0 bn in FY13. And this amount is further expected to increase to Rs.85.0 bn in the current financial year. Even as CSR is entering corporate consciousness, the next two to three years will remain a 'learning period' for industry.

CSR in India has moved from a voluntary activity to a compulsory requirement backed by law. India is the first country to mandate a minimum spend on CSR. Clause 135 of the Companies Act 2013 (the Act) requires companies above a certain financial threshold to spend at least 2% of their average net profits of the preceding three years on CSR. However, the Act has taken a 'comply or explain' approach.

IiAS studied the FY15 CSR initiatives and disclosures of the S&P BSE 100 companies to understand and evaluate how these companies fared. The CSR spend of these 100 companies, aggregated to Rs.52.4 bn. Of these, however, 95 companies were required to comply with the requirements of CSR spend under the Act – the CSR spend for these 95 companies aggregated Rs.51.9 bn. Five companies were not required to spend on CSR mandatorily because they recorded three-year average losses yet these companies spent Rs.0.5 bn (in aggregate) on CSR.

Even before the statutory CSR norms were put in play, the larger companies were spending on social and environmental causes. In FY13, these S&P BSE 100 companies spent Rs.30.0 bn on CSR. This was, on an average, 0.9% of the average profit before tax¹ of the preceding three years of these companies. This is evidence of the fact that companies in India recognize the need to undertake socially responsible activities.

PSU's trail behind

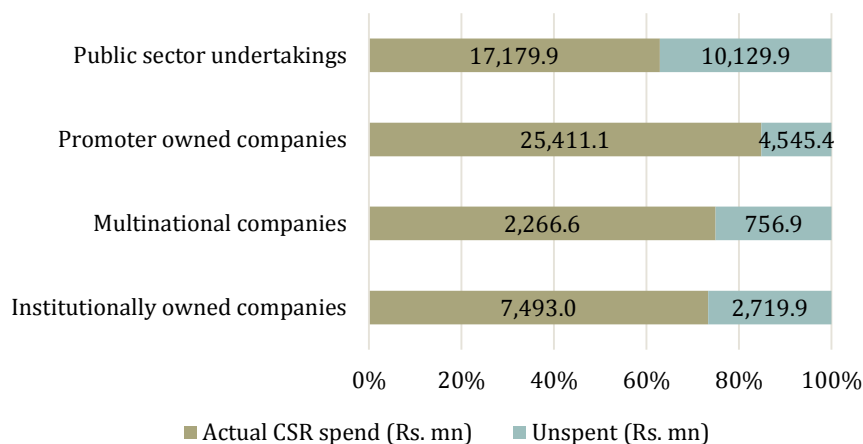
While PSUs have been required to spend on CSR since 2010 as per the Department of Public Enterprises (DPE) guidelines, non-PSUs have had no such obligation. Yet, of the Rs.30.0 bn spent in FY13, non-PSUs typically spent 1.0% of their average profit before tax of the preceding three years while PSUs spent 0.6% of their average profit before tax of the preceding three years.

This trend has continued. In FY15, CSR spends of the S&P BSE 100 companies aggregated 1.5% of their three year average profits. Non-PSUs spent 1.6% and the 21 PSUs spent 1.3% of their average profit in the preceding three years, respectively. Given that PSUs had a head start, they should have been in a better position to scale up their CSR activities.

¹ Average profit before tax of the preceding three years has been calculated based on numbers available on Prowess database of Centre for Monitoring Indian Economy (CMIE). It includes profits arising from branches outside India.

Additionally, not all PSUs have followed the prescribed disclosure under the Act, and some have not even explained the reason for the shortfall in CSR spends (as is required under the comply or explain approach). Enacting laws without a follow-through on implementation reduces the seriousness of the government’s diktat – more so given that PSUs are large in size and impact overall spends in a meaningful way.

Ownership-wise spend in FY15

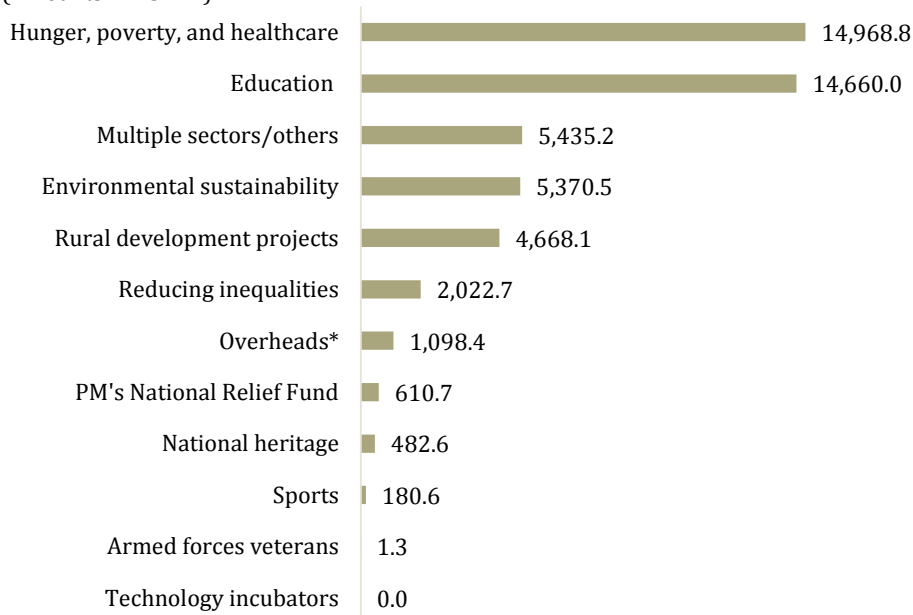


What are companies spending on?

Around 65% of the aggregate FY15 CSR spend, by these 100 companies was philanthropic: some instances include, 19 companies contributed Rs.610.7 mn towards the Prime Minister’s National Relief Fund and seven companies contributed Rs.470.6 mn towards *Swachh Bharat Kosh*. While these causes need support, having companies undertake CSR also contains the added agenda of using corporate execution and managerial capabilities to achieve a larger national agenda.

Break-up of CSR spend as per Schedule VII activities

(Amounts in Rs. mn)



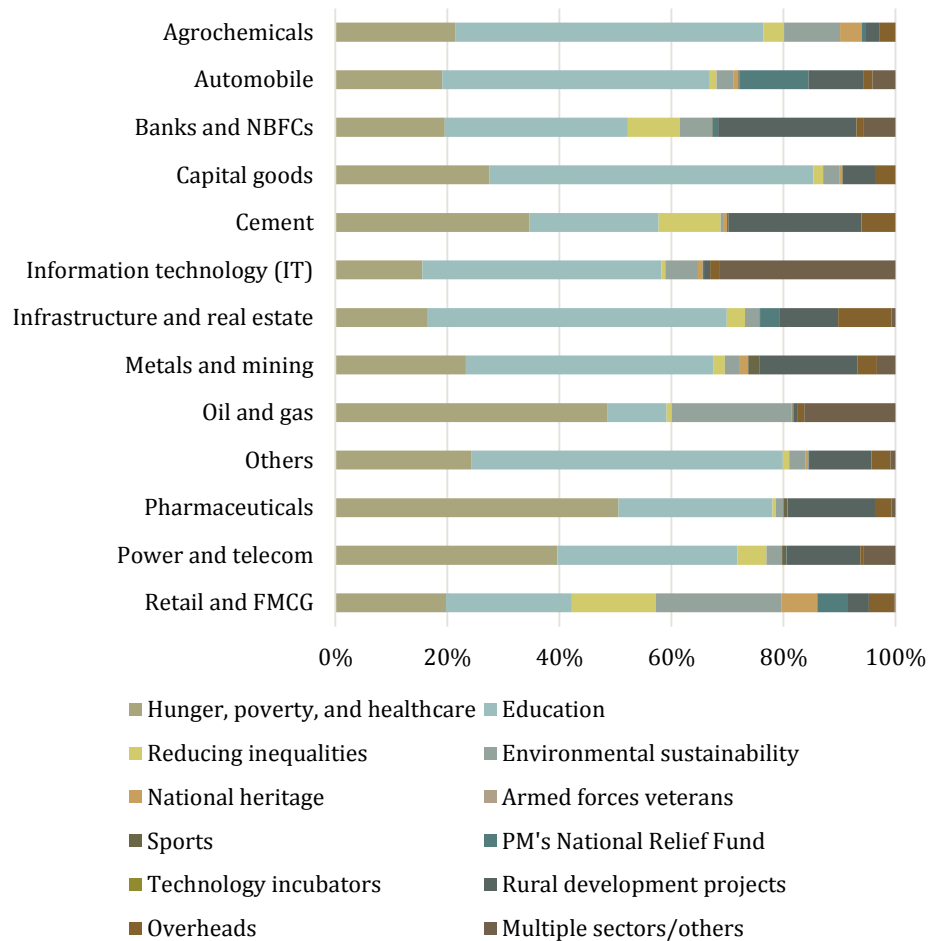
*Overheads refer to the expenditure on building CSR capacities of the company and/or implementing agencies

At least 39 companies successfully undertook activities that tie back to their businesses. Some examples of these are:

- Aditya Birla Nuvo launched Project *Kaushalya*², a skills training centre in collaboration with Confederation of Indian Industry (CII). So far Aditya Birla Nuvo has trained and certified 1,036 youngsters in trades such as handling and repair of electrical equipment, auto service technicians, retailing, data entry operators, tailoring, and salon care.
- Similarly, Tata Motors trains youth in technical and automotive trades through its project *Kaushalya*².
- Godrej Consumer Products launched Godrej Vijay in 2011 – a training programme in channel sales to help skill unemployed youth and build a talent pipeline for the fast moving consumer goods industry. The programme has trained 38,999 youth across 44 locations in channel sales.
- Kotak Mahindra Bank conducted Financial Literacy Camps where over 60 activities were conducted in different locations across Maharashtra. Also, *Kotak Unnati* is a vocational training program for youth drop-outs from schools / colleges. This program includes a financial literacy module developed and co-sponsored by National Institute of Securities Markets (NISM).
- Maruti Suzuki conducts a ‘road safety’ programme that provides training on driving skill and behaviour. For the initiative, the company has partnered with (i) State governments to set up Institutes of driving and traffic research and (ii) Its dealers to set up Maruti Driving Schools. Further, the company is working with 88 Industrial Training Institutes (ITIs) spread across 21 states to upgrade automobile related trades and create employment options for them in automobile service workshops.
- Colgate-Palmolive (India) conducts a program called ‘Bright Smiles, Bright Futures’ wherein it reaches out to influencers – such as school teachers and the *anganwadi* teachers in communities – to improve oral health. For this program, it has partnered with the Indian Dental Association and committed dental professionals.
- Asian Paints conducts livelihood enhancement projects in the form of basic and specialized painter training programmes to unemployed youth and painting applicators/contractors.
- Dr. Reddy’s Laboratories undertakes capacity building of health service providers.
- Dabur India undertakes employment enhancing vocational skills development through vocational training centres and provides bee-keeping training.
- Through Campus Connect, launched in May 2004, Infosys shares some of its best practices with engineering colleges, thus aligning the needs of institutions, faculty, and students with those of the information technology industry.
- UPL conducts *Suraksha Abhyaan* to create awareness among ITI students on occupational health and safety especially in chemical industry.
- Hindustan Unilever conducts a Hand Washing Behaviour Change Programme which promotes the benefits of handwashing with soap in schools and *anganwadis* (pre-school centres). The company also partnered with Children’s Investment Fund Foundation (CIFF) and the Government of Bihar to promote handwashing behaviour change among children in Bihar with the aim to help prevent childhood illnesses and mortality.

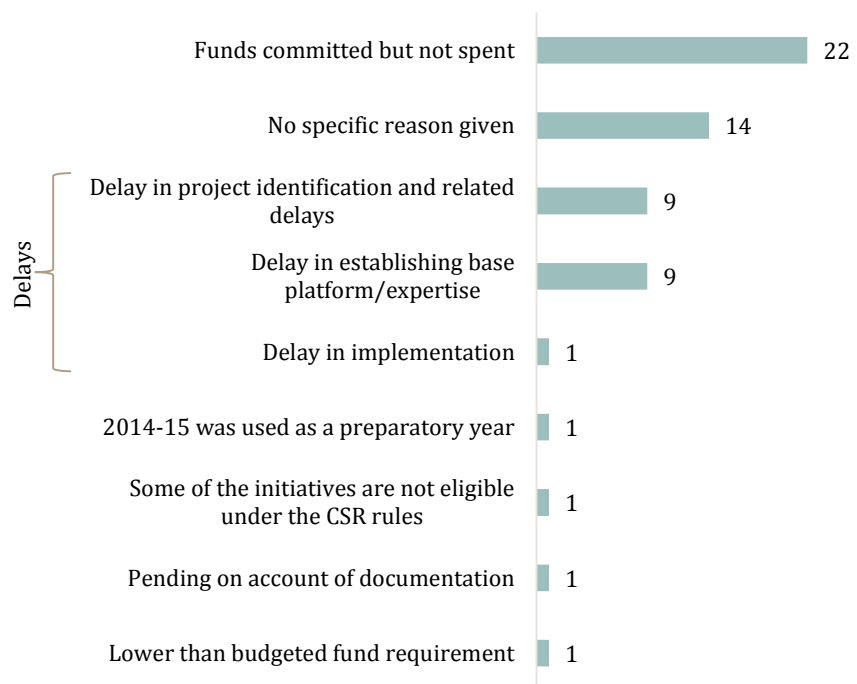
² Project *Kaushalya* by Aditya Birla Nuvo and Tata Motors are two distinct projects

Sector-wise break-up of CSR spend as per Schedule VII activities



Common reasons for not meeting the 2% target

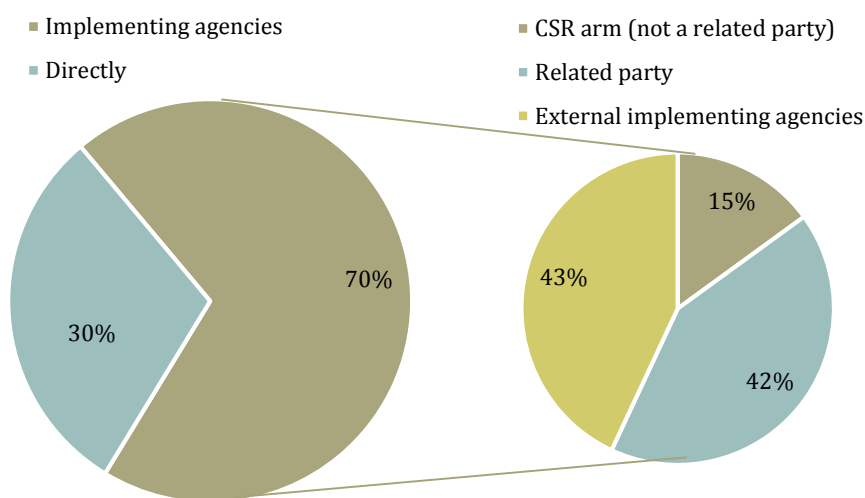
(no. of companies)



Of the 100 companies, 20 companies currently carry out CSR initiatives through company owned trusts/foundations and 19 companies do so through promoter owned trusts/foundations. The CSR spend through promoter owned trusts/foundations aggregates Rs.11.2 bn. IiAS is of the opinion that companies have a better opportunity to align CSR initiatives along the lines of their core business activity if they conduct programmes through their own entities.

IiAS also assessed whether the committees that overlook the CSR function have at least one independent director³. While regulations require companies to have at least one independent director on the CSR committee, IiAS observes that 16% of the companies do not comply with this provision. In fact 5% of the companies have not disclosed the Chairperson of the committee.

Modes of spending



IiAS policy snapshot – tenure for independent directors

With regards to tenure, the IiAS policy follows the limits specified in the Companies Act 2013 – maximum tenure being limited to two consecutive terms of five years each. After ten years, an independent director will not be eligible for re-appointment for a period of an additional three years. Existing tenure will be taken into account for this.

Although the CSR rules do not require companies to undertake an impact assessment of their CSR activities, 41 companies conducted one: this reflects on the seriousness and responsibility with which companies are approaching their CSR spends.

Does undertaking CSR create shareholder value?

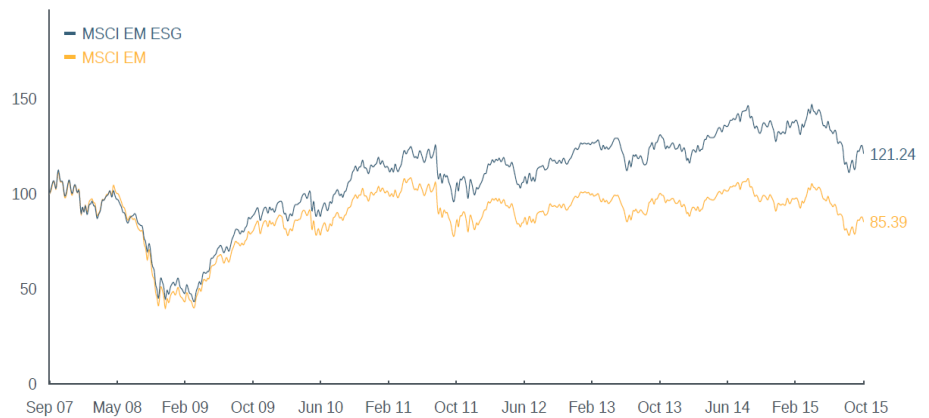
The Morgan Stanley Capital International Emerging Markets Environmental, Social and Governance (MSCI EM ESG) Index⁴ outperformed the MSCI EM Index over a period of eight years (2007-15). The MSCI EM ESG Index, is a capitalization weighted index that provides exposure to companies with high

³ Independent Director as defined by IiAS

⁴ The MSCI Emerging Markets ESG Index was launched on 6 June 2013. Data prior to the launch date is back-tested data (i.e. calculations of how the index might have performed over that time period had the index existed).

ESG performance relative to their sector peers. MSCI EM ESG consists of large and mid-cap companies across 23 Emerging Markets (EM) countries⁵.

CUMULATIVE INDEX PERFORMANCE - NET RETURNS (USD) (SEP 2007 – OCT 2015)



Source: www.msci.com/esg-indexes

In November 2014, Allen Ferrell, Harvard Law School, and Hao Liang and Luc Renneboog, both from Tilburg University, Netherlands, were awarded the Moskowitz Prize⁶ at the 25th annual Socially Responsible Investing (SRI) Conference. Their study suggested that good corporate governance correlates with higher CSR initiatives. And in turn, these increased CSR practices contribute to shareholder wealth. The paper’s findings, that higher CSR performance is closely related to how much firms retain in cash holdings and higher pay-for-performance returns – support the view that CSR increases shareholder value. The authors sought to test two widely acknowledged views concerning CSR. The first is that firms that practice CSR maximize shareholder wealth in addition to providing societal good. The second view (known as the agency view), argues that CSR can be detrimental by distracting managers from their core responsibilities. The study concluded that CSR can counterbalance the negative effects of managerial entrenchment – when managerial interests outweigh that of their shareholders – and lead to higher shareholder value.

The regulatory framework for CSR is a step in the right direction as it encourages companies to broaden their remit beyond their immediate stakeholders. However, CSR needs to be sustainable for it to continue to enthruse corporates and to have meaningful long-term impact. For this, companies need to have skin in the game: IiAS believes this will happen when companies integrate CSR to their strategic goals.

⁵ EM countries include: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

⁶ The Moskowitz Prize is a global award that recognizes outstanding academic research on a topic germane to the field of sustainable, responsible, impact (SRI) investment industry.

Annexure: List of the S&P BSE 100 companies

Sr. No.	Company name	Sector	Ownership type	Management type	3-year average profit Rs. mn	Prescribed spend Rs. mn	Actual CSR spend Rs. mn	Actual spend as a % of profit
1	ABB India Ltd.	Power and telecom	Promoter	Promoter	2496.1*	49.9	5.5	0.2
2	ACC Ltd.	Cement	MNC	Professional	13600.0	272.0	274.5	2.0
3	Adani Ports and Special Economic Zone Ltd.	Infrastructure and real estate	Promoter	Promoter	17900.0	357.9	359.0	2.0
4	Aditya Birla Nuvo Ltd.	Others	Promoter	Promoter	4704.2	94.1	96.1	2.0
5	Ambuja Cements Ltd.	Cement	MNC	Professional	16960.0	340.0	384.0	2.3
6	Ashok Leyland Ltd.	Automobile	Promoter	Professional	860.0	17.2	17.7	2.1
7	Asian Paints Ltd.	Retail and FMCG	Promoter	Professional	14937.3	298.7	190.1	1.3
8	Aurobindo Pharma Ltd.	Pharmaceuticals	Promoter	Professional	6992.0	139.8	81.3	1.2
9	Axis Bank Ltd.	Banks and NBFCs	Institutionally owned	Professional	66886.7	1337.7	1232.2	1.8
10	Bajaj Auto Ltd.	Automobile	Promoter	Promoter	43164.9	863.3	429.1	1.0
11	Bank of Baroda	Banks and NBFCs	PSU	Professional	46762.5*	935.3	178.3	0.4
12	Bank of India	Banks and NBFCs	PSU	Professional	27187.1*	543.7	118.5	0.4
13	Bharat Forge Ltd.	Automobile	Promoter	Promoter	3558.6	71.2	112.3	3.2
14	Bharat Heavy Electricals Ltd.	Capital goods	PSU	Professional	82223.3	1644.5	1020.6	1.2
15	Bharat Petroleum Corporation Ltd.	Oil and gas	PSU	Professional	38005.3	760.1	339.5	0.9
16	Bharti Airtel Ltd.	Power and telecom	Promoter	Promoter	69986.0	1400.0	411.0	0.6
17	Bosch Ltd.	Automobile	MNC	Professional	13594.0	271.9	103.5	0.8
18	Cairn India Ltd.	Oil and gas	Promoter	Professional	64898.2	1298.0	703.6	1.1
19	Canara Bank	Banks and NBFCs	PSU	Professional	28643.3	572.9	304.0	1.1
20	Cipla Ltd.	Pharmaceuticals	Promoter	Promoter	17432.1	348.6	134.3	0.8
21	Coal India Ltd.	Metals and mining	PSU	Professional	12021.2	240.4	246.2	2.0
22	Colgate-Palmolive India Ltd.	Retail and FMCG	MNC	Professional	6583.9	131.7	132.8	2.0

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23	Crompton Greaves Ltd.	Capital goods	Promoter	Professional	6771.6	135.4	65.9	1.0
24	Cummins India Ltd.	Capital goods	MNC	Professional	7948.0	159.0	54.9	0.7
25	Dabur India Ltd.	Retail and FMCG	Promoter	Professional	7326.8	146.6	147.1	2.0
26	Divi's Laboratories Ltd.	Pharmaceuticals	Promoter	Promoter	8857.0	177.1	51.5	0.6
27	DLF Ltd.	Infrastructure and real estate	Promoter	Promoter	6410.0	128.2	128.2	2.0
28	Dr. Reddy's Laboratories Ltd.	Pharmaceuticals	Promoter	Promoter	18307.8	366.2	291.7	1.6
29	Eicher Motors Ltd.	Automobile	Promoter	Promoter	2262.6	45.3^	0.0	0.0
30	Exide Industries Ltd.	Automobile	MNC	Professional	6851.4	137.0	35.8	0.5
31	Federal Bank Ltd.	Banks and NBFCs	Institutionally owned	Professional	11917.5	238.3	72.8	0.6
32	Gail India Ltd.	Oil and gas	PSU	Professional	59333.7	1186.7	716.9	1.2
33	Glenmark Pharmaceuticals Ltd.	Pharmaceuticals	Promoter	Promoter	3886.6	77.7	57.7	1.5
34	GMR Infrastructure Ltd.	Infrastructure and real estate	Promoter	Promoter	1132.2	22.6	29.2	2.6
35	Godrej Consumer Products Ltd.	Retail and FMCG	Promoter	Professional	6207.2	124.1	160.8	2.6
36	Grasim Industries Ltd.	Retail and FMCG	Promoter	Professional	10020.0	200.0	167.1	1.7
37	HCL Technologies Ltd.	Information technology (IT)	Promoter	Promoter	44992.7	899.9	61.6	0.1
38	HDFC Bank Ltd.	Banks and NBFCs	Institutionally owned	Professional	98563.5	1971.3	1185.5	1.2
39	Hero MotoCorp Ltd.	Automobile	Promoter	Promoter	22020.0	440.4	23.7	0.1
40	Hindalco Industries Ltd.	Metals and mining	Promoter	Professional	17419.4	348.4	324.2	1.9
41	Hindustan Petroleum Corporation Ltd.	Oil and gas	PSU	Professional	17014.9	340.3	340.7	2.0
42	Hindustan Unilever Ltd.	Retail and FMCG	MNC	Professional	39909.3	798.2	823.5	2.1
43	Hindustan Zinc Ltd.	Metals and mining	Promoter	Professional	75780.0	1526.4	592.8	0.8
44	Housing Development & Infrastructure Ltd.	Infrastructure and real estate	Promoter	Promoter	2183.4	43.8	0.0	0.0

Sr. No.	Company name	Sector	Ownership type	Management type	3-year average profit Rs. mn	Prescribed spend Rs. mn	Actual CSR spend Rs. mn	Actual spend as a % of profit
45	Housing Development Finance Corporation	Banks and NBFCs	Institutionally owned	Professional	61307.3	1226.1	269.1	0.4
46	ICICI Bank Ltd.	Banks and NBFCs	Institutionally owned	Professional	85790.0	1720.0	1555.4	1.8
47	IDBI Bank Ltd.	Banks and NBFCs	PSU	Professional	13145.5	262.9	234.4	1.8
48	Idea Cellular Ltd.	Power and telecom	Promoter	Professional	15787.3	315.8	0.0	0.0
49	Indiabulls Housing Finance Ltd.	Banks and NBFCs	Institutionally owned	Professional	11599.7	232.0	232.0	2.0
50	Indian Oil Corporation Ltd.	Oil and gas	PSU	Professional	56475.0	1129.5	1137.9	2.0
51	IndusInd Bank Ltd.	Banks and NBFCs	Promoter	Professional	16324.5	326.4	175.3	1.1
52	Infosys Ltd.	Information technology (IT)	Promoter	Promoter	121330.0	2430.0	2395.4	2.0
53	ITC Ltd.	Retail and FMCG	Institutionally owned	Professional	106461.1	2129.2	2140.6	2.0
54	Jaiprakash Associates Ltd.	Capital goods	Promoter	Promoter	5367.3	107.3	134.7	2.5
55	Jindal Steel & Power Ltd.	Metals and mining	Promoter	Professional	23986.0	479.7	497.8	2.1
56	JSW Steel Ltd.	Metals and mining	Promoter	Promoter	21430.9	428.6	433.9	2.0
57	Kotak Mahindra Bank Ltd.	Banks and NBFCs	Promoter	Promoter	19597.9	392.0	119.7	0.6
58	Larsen & Toubro Ltd.	Infrastructure and real estate	Institutionally owned	Professional	53102.9	1062.1	765.4	1.4
59	LIC Housing Finance Ltd.	Banks and NBFCs	Institutionally owned	Professional	14810.0	296.2	40.0	0.3
60	Lupin Ltd.	Pharmaceuticals	Promoter	Professional	19817.0	396.3	125.8	0.6
61	Mahindra & Mahindra Financial Services Ltd.	Banks and NBFCs	Promoter	Professional	12430.9	248.6	248.8	2.0
62	Mahindra & Mahindra Ltd.	Automobile	Promoter	Promoter	41517.4	830.3	832.4	2.0
63	Maruti Suzuki India Ltd.	Automobile	MNC	Professional	25053.0	501.1	372.5	1.5
64	Nestle India Ltd.	Retail and FMCG	MNC	Professional	15366.0	307.0	85.1	0.6
65	NHPC Ltd.	Power and telecom	PSU	Professional	23818.8	476.4	522.4	2.2
66	NMDC Ltd.	Metals and mining	PSU	Professional	99791.4	1995.8	1886.5	1.9

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67	NTPC Ltd.	Power and telecom	PSU	Professional	141737.8	2834.8	2051.8	1.4
68	Oil & Natural Gas Corporation Ltd.	Oil and gas	PSU	Professional	330300.0	6606.1	4952.3	1.5
69	Power Finance Corporation Ltd.	Banks and NBFCs	PSU	Professional	58744.7	1174.9	516.8	0.9
70	Power Grid Corporation of India Ltd.	Power and telecom	PSU	Professional	55255.3	1105.1	474.2	0.9
71	Punjab National Bank	Banks and NBFCs	PSU	Professional	43248.2*	865.0	37.6	0.1
72	Reliance Capital Ltd.	Banks and NBFCs	Promoter	Professional	5891.1	117.8	117.8	2.0
73	Reliance Communications Ltd.	Power and telecom	Promoter	Professional	Loss	NA	0.0	0.0
74	Reliance Industries Ltd.	Oil and gas	Promoter	Promoter	266480.0	5329.6	7605.8	2.9
75	Reliance Infrastructure Ltd.	Power and telecom	Promoter	Professional	16595.7	356.8	253.5	1.5
76	Reliance Power Ltd.	Power and telecom	Promoter	Professional	2937.6	58.7	58.7	2.0
77	Rural Electrification Corporation Ltd.	Banks and NBFCs	PSU	Professional	51622.4	1032.5	460.4	0.9
78	Shriram Transport Finance Co. Ltd.	Banks and NBFCs	Promoter	Professional	19076.3	381.5	69.2	0.4
79	Siemens Ltd.	Capital goods	MNC	Professional	5277.0	105.5^	0.0	0.0
80	State Bank of India	Banks and NBFCs	PSU	Professional	122344.8*	2446.9	1158.0	0.9
81	Steel Authority of India Ltd.	Metals and mining	PSU	Professional	39000.0	780.0	350.4	0.9
82	Sun Pharmaceutical Industries Ltd.	Pharmaceuticals	Promoter	Promoter	Loss	NA	46.7	-
83	Tata Chemicals Ltd	Agrochemicals	Promoter	Professional	5830.1	116.6	102.0	1.7
84	Tata Consultancy Services Ltd.	Information technology (IT)	Promoter	Professional	142500.0	2850.0	2190.0	1.5
85	Tata Global Beverages Ltd.	Retail and FMCG	Promoter	Professional	1857.9	37.2	39.1	2.1
86	Tata Motors Ltd.	Automobile	Promoter	Professional	Loss	NA	186.2	-
87	Tata Power Co. Ltd.	Power and telecom	Promoter	Professional	14917.0	298.0	311.0	2.1
88	Tata Steel Ltd.	Metals and mining	Promoter	Professional	84128.2	1682.6	1714.6	2.0

Sr. No.	Company name	Sector	Ownership type	Management type	3-year average profit Rs. mn	Prescribed spend Rs. mn	Actual CSR spend Rs. mn	Actual spend as a % of profit
89	Tech Mahindra Ltd.	Information technology (IT)	Promoter	Professional	15440.0	308.8	505.0	3.3
90	Titan Co. Ltd.	Retail and FMCG	Promoter	Promoter	9681.0	193.6	123.2	1.3
91	UltraTech Cement Ltd.	Cement	Promoter	Professional	30760.0	615.1	444.6	1.4
92	Union Bank of India	Banks and NBFCs	PSU	Professional	18804.2*	376.1	132.5	0.7
93	Unitech Ltd.	Infrastructure and real estate	Promoter	Promoter	272.3	54.5	1.5	0.6
94	United Breweries Ltd.	Retail and FMCG	Promoter	Professional	2726.0	54.5	22.4	0.8
95	United Spirits Ltd.	Retail and FMCG	Promoter	Professional	Loss	NA	0.8	-
96	UPL Ltd.	Agrochemicals	Promoter	Promoter	3463.0	69.3	106.2	3.1
97	Vedanta Ltd.	Metals and mining	Promoter	Professional	Loss	NA	255.0	-
98	Wipro Ltd.	Information technology (IT)	Promoter	Professional	64154.0	1283.0	1327.0	2.1
99	Yes Bank Ltd.	Banks and NBFCs	Promoter	Promoter	19013.5	380.2	157.1	0.8
100	Zee Entertainment Enterprises Ltd.	Others	Promoter	Promoter	9658.0	193.0	168.4	1.7

* These companies have not specified the 3-year average net profit figure in their CSR disclosures. IiAS has calculated the figure based on the preceding three years profit before tax data from CMIE prowess.

^ Eicher Motors maintains its accounting year from January to December and Siemens maintains its accounting year from October to September. The mandatory CSR requirement is applicable for the financial year starting after 1 April 2014. However, for its analysis IiAS has calculated their 3-year average profit and prescribed CSR spend.

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