

# ***A Study of Relation between CSR expenditure and Profits of the selected Indian Companies***

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## ***Abstract***

*CSR means corporate social responsibility, means the responsibilities of a company towards the society in which it works. It was made compulsory for the privileged net worth companies to engage into CSR activities so that our companies may be a part of the development of Indian society. Section 135 of the Companies Act 2013 has provisions that all eligible companies under this section are required to perform CSR activities. The amount of CSR expenditure has also been underlined in this section which states that the amount must not be less than the average profit of preceding three financial years. The paper tries to study whether the CSR expenditure depends upon the profits earned in the current fiscal year or not. For this purpose, the study uses correlation analysis. 15 companies from 5 significant sectors of the economy has been selected and secondary data analysis has been performed. The period of the study is from FY2016-17 to FY2018-19.*

**Keywords:** CSR; Companies Act; Section 135; PBT; Correlation;

## **Objectives**

There are the following objectives of this paper-

- To study about the CSR expenditure and Profits earned in the period of study.
- To enquire about the relation between the profits of the company and CSR expenditure.

## **Review of Literature**

**Narwal and Singh (2013):** The sample for the present study consisted of 38 companies including 18 Indian companies and 20 MNCs of different countries working in India across various industries. The data thus generated was analyzed with the help of ANOVA and factor analysis.

**Arevalo and Aravind (2011):** The paper surveyed top-level managers of a sample of companies currently engaging in a CSR initiative, representing a variety of industry sectors. Focusing on four approaches: ethical, statist, liberal, and stakeholder approach, the paper investigates the reported drivers and barriers to implementing CSR practices.

**Arora and Puranik (2004):** Scholars *Bimal Arora* and *Ravi Puranik* apply a development-oriented framework to contextualize CSR to structural adjustments-related macro socioeconomic issues relevant to the developing countries, with a focus on CSR in India.

## **Research Methodology**

The study follows Descriptive and Analytical approach of research. For the purpose of research, sector-wise data has been collected. Five major sectors have been chosen for the study which are very significant contributors in India's GDP, FMCG, IT, Banking, Automobile and Pharma (pharmaceutical). In all the five sectors, three representative companies have been selected in each sector. Hence in total 15 companies from five different sectors of Indian economy has been selected as sample for the study. All the companies belong to the private sector. The secondary data is collected from all the reliable and authentic sources. The data has been collected for each company for three years. Thus, the period of study is for three financial years- FY16-17, FY17-18 and FY18-19. The collected data has been compiled in MS-Excel and results are drawn therefrom. Correlation analysis - has been used for the study which is calculated through Excel only.

## **Significance of the study**

The paper tries to answer that whether the CSR expenditure of the company is based solely on the average profit of the last three years or the current year earning has an impact over it. If there would be found any correlation between the earnings of the current fiscal and CSR expenditure of the same fiscal, it would be beneficial for the outsiders, organisations and the authorities to have a look over CSR policy and expenses of the company in this regard.

## **Limitations of the study**

The study is confined to finding the relation between the profit and CSR expenditure of the companies of the same fiscal year. This can be further studied for the profits of preceding the three years or an average of the same. The study is limited to three financial years only, only within 15 Indian Private Sector Companies. A study can be further generated for the PSUs

also. For analysis and observing the relation and impact, Correlation analysis has been used. Further studies may use more tools in this regard.

## **Introduction**

Corporate Social Responsibility is a much talked-about subject since the past few decades. It used to be a matter of debate that whether this contribution should be a mandatory one or it should be with the self-discretion of the companies. This dilemma was resolved in 2013 with the passage of new Companies Act when CSR was made a compulsory contribution for all eligible companies under **section 135**. CSR (Corporate Social Responsibility) Regulations, 2014 was passed to make the provisions clearer and more implementable.

The CSR law states that the amount of expenditure for CSR should be minimum 2% of the average net profit of the preceding three years. The law further states that, for the computation of net profit, the provisions of **section 198** will be applicable. This implies that the term 'net profit' means profit before tax (**PBT**). PBT is arrived at by deducting interest expenditure and all operational expenses. CSR spending should be at least 2% of the average PBT of last three years, that is, three years preceding to the fiscal year of expenditure.

## **Hypothesis**

**H<sub>0</sub>** : Profits of selected Indian companies in a particular year do not impact their CSR expenditure in the same year.

**H<sub>1</sub>**: Profits of selected Indian companies in a particular year significantly impact their CSR expenditure in the same year.

## **Year-wise Analysis of the Findings**

**Table: 1**

	<b>2017</b>	
<i>(figures in ₹ crore)</i>	<b>CSR expense</b>	<b>PBT</b>
<b>FMCG sector</b>		
ITC Ltd.	275.96	16,020.35
HUL	103.88	6,479.00
Godrej Consumer Products Ltd.	16.52	1,686.31
<b>IT sector</b>		
TCS Ltd.	379.71	34,513.00
Infosys Ltd.	289.44	19,981.00
Wipro Ltd.	186.30	11,039.30

<b>Banking sector</b>		
HDFC Bank	305.42	23,365.53
ICICI Bank	182.00	13,809.33
IndusInd Bank Ltd.	33.81	4,359.67
<b>Automobile sector</b>		
Maruti Suzuki India Ltd.	89.45	9,954.40
Hero Motocorp Ltd.	85.14	4,568.39
Mahindra & Mahindra Ltd.	83.30	5,450.86
<b>Pharma sector</b>		
Aurobindo Pharma Ltd.	19.35	3,055.82
Cipla Ltd.	28.25	1,222.17
Cadila Healthcare Ltd.	29.17	1,614.60
<b>Correlation</b>	0.963	

*Source: Data compiled*

### ***Interpretation-***

In the year 2017, the relation between CSR expenditure and Profits of the company in the same year, is found highly correlated, with 96.3% of correlation. This means that the expenditure of the selected companies is impacted by the profits earned in the year. 2017 was the year in which GST was imposed in the month of July and this had, more or less, impacted the businesses.

The table also suggests that the industry spending the most towards CSR is IT sector followed by banking and FMCG, based on selected sample.

**Table: 2**

	<b>2018</b>	
<i>(figures in ₹ crore)</i>	<b>CSR expense</b>	<b>PBT</b>
<b>FMCG sector</b>		
ITC Ltd.	291.00	17,401.53
HUL	116.09	7,304.00
Godrej Consumer Products Ltd.	18.88	2,037.80
<b>IT sector</b>		
TCS Ltd.	400.00	34,092.00
Infosys Ltd.	312.60	20,341.00
Wipro Ltd.	186.00	10,241.10
<b>Banking sector</b>		

HDFC Bank	374.54	28,463.92
ICICI Bank	170.30	10,978.46
IndusInd Bank Ltd.	20.47	6,656.12
<b>Automobile sector</b>		
Maruti Suzuki India Ltd.	125.08	11,003.60
Hero Motocorp Ltd.	84.34	5,242.44
Mahindra & Mahindra Ltd.	81.97	9,218.26
<b>Pharma sector</b>		
Aurobindo Pharma Ltd.	17.73	3,238.04
Cipla	32.20	1,669.46
Cadila Healthcare Ltd.	26.04	2,330.80
<b>Correlation</b>	0.960	

Source: Data compiled

### **Interpretation-**

In the 2018 also the impact of profit over CSR expenditure of the same year is found highly correlated and significant. The correlation between profits and CSR expenditure is 96%. This means again that the spending over CSR is highly affected with the profits of the company.

Again, in the year 2018, IT sector has contributed the most towards CSR and social well-being. The companies like TCS, Infosys, Wipro, Cognizant are the giants. TCS is the first company in India that has crossed \$1 Bn valuation. This may be the probable reason for their remarkable social welfare spending. By the way, TATA has always been known for its ethical principles, nationhood, and social welfare activities and donations.

**Table: 3**

	<b>2019</b>	
<i>(figures in ₹ crore)</i>	<b>CSR expense</b>	<b>PBT</b>
<b>FMCG sector</b>		
ITC Ltd.	306.95	19,138.12
HUL	126.45	8,604.00
Godrej Consumer Products Ltd.	21.91	2,084.70
<b>IT sector</b>		
TCS Ltd.	434.00	41,563.00
Infosys Ltd.	342.04	21,041.00
Wipro Ltd.	185.30	11,546.50
<b>Banking sector</b>		
HDFC Bank	443.78	34,318.16
ICICI Bank	92.20	7,408.27

IndusInd Bank Ltd.	55.46	4,979.96
<b>Automobile sector</b>		
Maruti Suzuki India Ltd.	154.07	10,468.10
Hero Motocorp Ltd.	93.72	5,043.54
Mahindra & Mahindra Ltd.	93.50	7,504.32
<b>Pharma sector</b>		
Aurobindo Pharma Ltd.	46.77	3,088.65
Cipla Ltd.	33.42	2,079.14
Cadila Healthcare Ltd.	27.21	2,382.10
<b>Correlation</b>	0.968	

*Source: Data compiled*

### ***Interpretation-***

The correlation between profits and CSR expenditure is found highest in the year 2019. In FY18-19, there is 96.8% correlation between the two. This means that the CSR expenditure is highly impacted with the profits of the same fiscal year.

In this financial year also, IT sector is the highest contributor to the CSR activities, followed by FMCG and Banks. Pharmaceuticals is the least contributor in this regard.

### **Conclusion**

From the above three tables, we get to know that in almost each selected period of study the correlation between the profit and CSR expenditure is found highly correlated. Thus, our Null hypothesis gets rejected and Alternate hypothesis ( $H_1$ ) gets accepted. This implies that profits of selected Indian companies in a particular year significantly impact their CSR expenditure in the same year.

The above data analysis and interpretation makes it clear that the CSR expenditure is not only affected by the regulatory compliance of preceding three years average profit, but also the current year earnings. This may be for the simple reason that although the CSR spending need to be average of last three-year earnings, but the company or the firm is required to make the expenditure in the same year only with same year earnings. That is why the correlation between the earnings (PBT) and CSR expenditure is found highly correlated. There are a lot of other business expenditure that the company is required to do. It has to invest on expansion, competition, growth, employees, contingencies, manufacturing and many more. CSR is either a compulsory contribution or a secondary tool of marketing and public relations. Therefore, it gets impacted by the earnings of the fiscal year.

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