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# The CRISIL CSR yearbook



In fiscal 2015, smaller listed firms spent relatively more than the biggies



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## Making a good beginning

Corporate social responsibility, or CSR, spending has been the topic of many a public discussion after being made obligatory under Schedule VII of the new Companies' Act, 2013.

To be sure, there has been considerable scepticism about India Inc's proclivity to look beyond profit and towards altruism. And analyses of CSR spending done in the past tended to focus on the top 50 or 100 corporates, most of which already have had a culture of philanthropy and public service.

CRISIL Foundation, a non-profit, therefore decided to conduct a comprehensive analysis of the listed universe of 3,855 listed companies to find out whether India Inc has indeed embraced its CSR mandate. It was an opportune moment to do so because fiscal 2015 was the first financial year for which data on such spending could be captured. Spending by unlisted companies could not be analysed for want of data.

As many as ~1,300 listed companies, or ~40% of those listed on the Bombay Stock Exchange, met the criteria stipulated in the Companies' Act, 2013, which required them to formally spend and report on their CSR activity.

Fiscal 2015 was the first year of implementation of the CSR obligation, and it saw ~75% -- or ~1,000 - companies -- formally reporting their CSR spend. Another ~10% of companies indicated they are in advanced stages of implementing their agenda. By any yardstick, that's a positive start, and we should expect the pace of compliance to improve materially over the next few years. Surprisingly though, more than 10% of companies made no mention of CSR in their annual disclosures and we would hope that this number falls off sharply when we conduct this study again next year.

### However, only half the companies spent the stipulated 2% on CSR.

The ~1,000 companies that formally detailed their CSR activity cumulatively spent over Rs 6,800 crore, tantamount to 1.35% of their profit. Another Rs 3,200 crore could have been spent had they met the 2% norm. Also, there were 200 companies that didn't spend anything (or were in advanced stages of planning their CSR agenda) and CRISIL estimates these could have spent another Rs 2,000 crore, which would have taken the cumulative spending to Rs 12,000 crore for fiscal 2015.

While about half of the companies did spend 2% of their profits on CSR, ~60% of them spent 1.5%, while 28% spent less than 1%, which is something to ponder for their management and boards.

Spending profile (% of profits)	% age of companies
Spends of 2% or more	50%
Spends of 1.5% or more	60%
Spends < 1.5%	40%
Spends <1%	28%

## Smaller companies more giving, but larger ones will catch up

Going forward, larger organisations with established processes, governance systems and active boards would be more alive to the CSR task. However, presently, outcomes are quite the opposite is what the data reveals.

Spending profile (% of profit)	% of companies (segmented on annual sales turnover)		
	Rs 100-500 cr	Rs 500-10,000 cr	More than Rs 10,000 cr
2% or more	53%	50%	31%
1.5% or more	62%	59%	47%
< 1.5%	38%	41%	53%
< 1%	26%	29%	36%

As the table above shows, smaller companies were relatively more enthusiastic about spending on CSR activity compared with their larger counterparts in fiscal 2015. Clearly, they are not short on altruistic, society-building motivation. This also reflects a broad-basing of CSR activity in India Inc.

For the bigger companies, the challenge is the large size of their spending mandate so they need considerable time and effort to conceptualise and design processes to maximise outcomes.

The trend will thus change by the time we revisit the numbers after the current fiscal and we expect most lagging large corporates to show traction in their CSR activity.

## 82% of CSR spending in 4 sectors

Sector	Spending (Rs cr)	As % of total
Education & skills development	2,250	33%
Healthcare & sanitation	1,875	27%
Rural development projects	892	13%
Environment conservation	623	9%
Relief funds	216	3%
Empowerment	140	2%
National heritage protection	120	2%
Promotion of sports	89	1%
Funds for technology development	15	0%
Benefits for armed forces/families	15	0%
Others*	606	9%
<b>Total</b>	<b>6,841</b>	<b>100%</b>

Schedule VII of the Companies' Act, 2013 allows the corporate sector to invest in a wide variety of areas as part of CSR activity. These segments have been expanded from time to time to encourage spending.

Yet 73% of the CSR spending was focused on education/skill development, health care/sanitation and rural development. This is good for starters, as these are some of the pressing needs in India today, and focus on these areas by corporates will provide additional impetus to the schemes and programs of the government in these areas.

However, it is puzzling to see that funds for technology development and setting up of incubation centers – an area of sharp focus among corporates and financiers these days -- has received scant attention with a mere 6 out of ~1,300 companies considering such investments. Similarly, support for armed forces veterans and their families, along with sports, barely received attention.

We believe that the present spending distribution is as much a reflection of the priorities of organisations to spend in specific sectors as it is of the availability of scale and capacity at implementing non-government organisations (NGOs). Traditionally, education, health and sanitation are the sectors where most NGO capacity has been created so it's no surprise that most of the initial investments have flowed that way. As NGOs in other areas gear up and approach corporates, we hope to see the spending getting more broad-based.

## Surprise! Private sector fares a tad better than public sector

Spending profile (% of profits)	PSUs	Private sector
2% and above	43%	<b>52%</b>
1.5% and above	60%	<b>61%</b>
Less than 1.5%	40%	<b>39%</b>
Less than 1%	30%	28%

Even at the public sector level, compliance with 2% CSR spending is low. Public and private sector companies seem to be similarly placed in terms of the overall spending profile with the latter marginally ahead, actually.



## Regional disparities in compliance not very significant

Other than the industrialised states such as Gujarat, Tamil Nadu and Maharashtra, where companies have performed well in terms of CSR spending, it is heartening to see companies based in West Bengal, Uttar Pradesh spending more than the national average.

States	Spending profile (% of profit) of companies			
	2% and above	1.5% and above	less than 1.5%	less than 1%
West Bengal	57%	68%	32%	21%
Gujarat	56%	67%	34%	26%
Uttar Pradesh	57%	67%	32%	24%
Tamil Nadu	62%	66%	34%	34%
Haryana	62%	65%	35%	19%
Maharashtra	48%	65%	34%	27%
Telangana	51%	60%	39%	28%
Karnataka	51%	59%	41%	29%
Rajasthan	46%	58%	42%	28%
NCT of Delhi	43%	57%	43%	29%
Rest of India	38%	49%	50%	35%

## Annexure and methodology

We began with 3,850 odd companies listed on the Bombay Stock Exchange on the basis of three financial parameters in any of the preceding three year fiscals:

1. Net worth of Rs 500 crore
2. Revenue of Rs 1,000 crore or more
3. Profit after tax of Rs 5 crore or more

As many as ~1,300 companies met above criteria of which only ~1,000 (~75%) companies reported their CSR spend for fiscal 2015. About 200 companies did not report about CSR activity or were in advance stages of implementing their CSR activity. For ~50 companies, annual reports for fiscal 2015 could not be found.

We then generated a list of companies where more information was necessary to understand CSR spends. This required extracting data from public disclosures. This was followed by number crunching, validation and multiple quality checks across 1 lakh data points to arrive at the conclusions.

Data for this was sourced from CRISIL, stock exchange websites, and other public sources.

### CRISIL Foundation

CRISIL Foundation is a public charitable trust. Our financial inclusion project, *Mein Pragati*, empowers communities that have limited or no access to formal sources of finance. Our flagship employee volunteering program, CRISIL RE, enables an increase in green cover, transforms barren plots to sustainable fields, and preserves endangered ecosystems such as mangroves. As a responsible corporate citizen, CRISIL Foundation is deeply committed to both causes – financial inclusion and environment conservation.

We are at present implementing a large pilot project in Assam aimed at strengthening the financial capabilities of 100,000 rural women through a financial literacy programme, counselling and product linkage with financial service providers. After a detailed process of design and field testing, the project went live in April 2015. At present, a field force of more than 120 dedicated 'CRISIL Mitras' are working across 6 districts of Assam to implement this program and have reached out to more than 30,000 women till date.

As for CRISIL's CSR spend, it is pertinent to mention here that the relevant provisions of the Companies Act, 2013 are applicable from the financial year starting April 1, 2014. Since CRISIL's financial year commenced on January 1, 2014, this provision was not applicable. Nevertheless, we have already hit the ground running through the CRISIL Foundation, and are happy to inform that our financial inclusion and environment conservation projects scaled up substantially in 2015. They are poised for even more rapid expansion in 2016.



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### **About CRISIL Foundation**

CRISIL Foundation was set up in March 2013, as a public charitable trust, to fulfill the corporate social responsibility (CSR) of CRISIL Ltd. Our goal is the empowerment of rural women by strengthening their financial capabilities. Our initiatives present a unique and non-transactional proposition to our key stakeholders including bankers, policymakers and regulators. We also meaningfully engage our young workforce through environment conservation activities. The foundation has an active outreach programme in project communities, and has aligned its strategy with CRISIL's overarching mission - Making markets function better.

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