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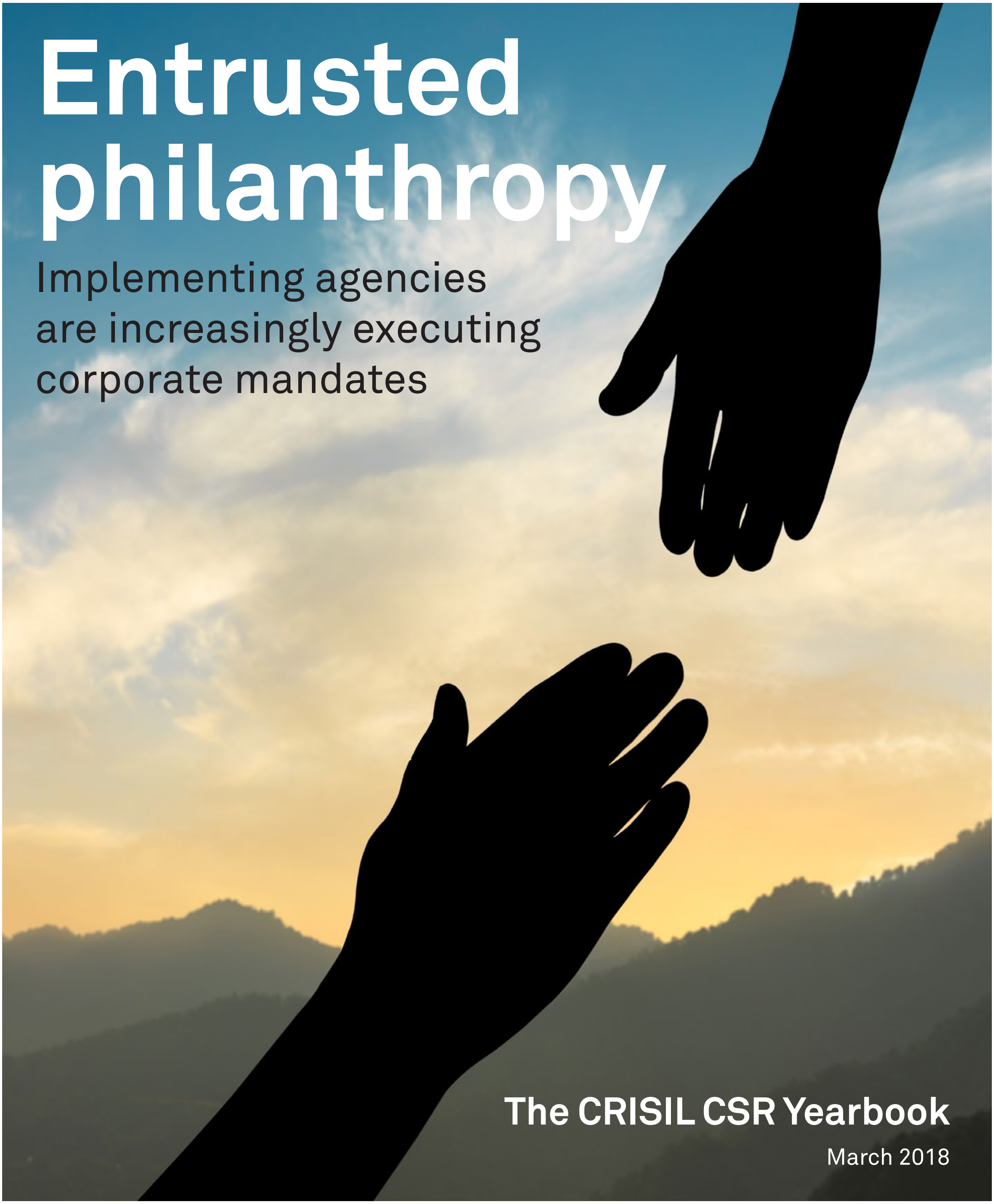

Entrusted philanthropy

Implementing agencies are increasingly executing corporate mandates

The CRISIL CSR Yearbook

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Executive summary

Giving back is good business, too. And India Inc seems to be taking this dictum to heart.

Spending on corporate social responsibility (CSR) continued to improve in fiscal 2017, the third year of implementation of the legislative mandate, and despite the jitters caused by demonetisation and impending rollout of the Goods and Services Tax.

The amount spent on CSR by eligible listed companies rose nearly 7% on-year to just shy of Rs 9,000 crore. Over the past two fiscals, such spending surged at a compound annual growth rate (CAGR) of 14%, despite a lukewarm 5% growth in profit.

Commendably, the improvement came despite a high base of fiscal 2016, which had seen a marked spike in spending led by government push to schemes such as the Swachh Bharat Abhiyaan. Around 70% of these companies spent more than they did the previous fiscal. And the number of companies spending the stipulated 2% of their net profit also increased.

But a wart was visible, too: growth in the number of companies spending on CSR was slower at just 2.4%, compared with 13% in fiscal 2016.

The standout feature last fiscal was an overwhelming 74% of companies using implementing agencies such as non-government organisations (NGOs) to achieve their altruistic goals. Not just large companies, around two-thirds of the small ones also did so.

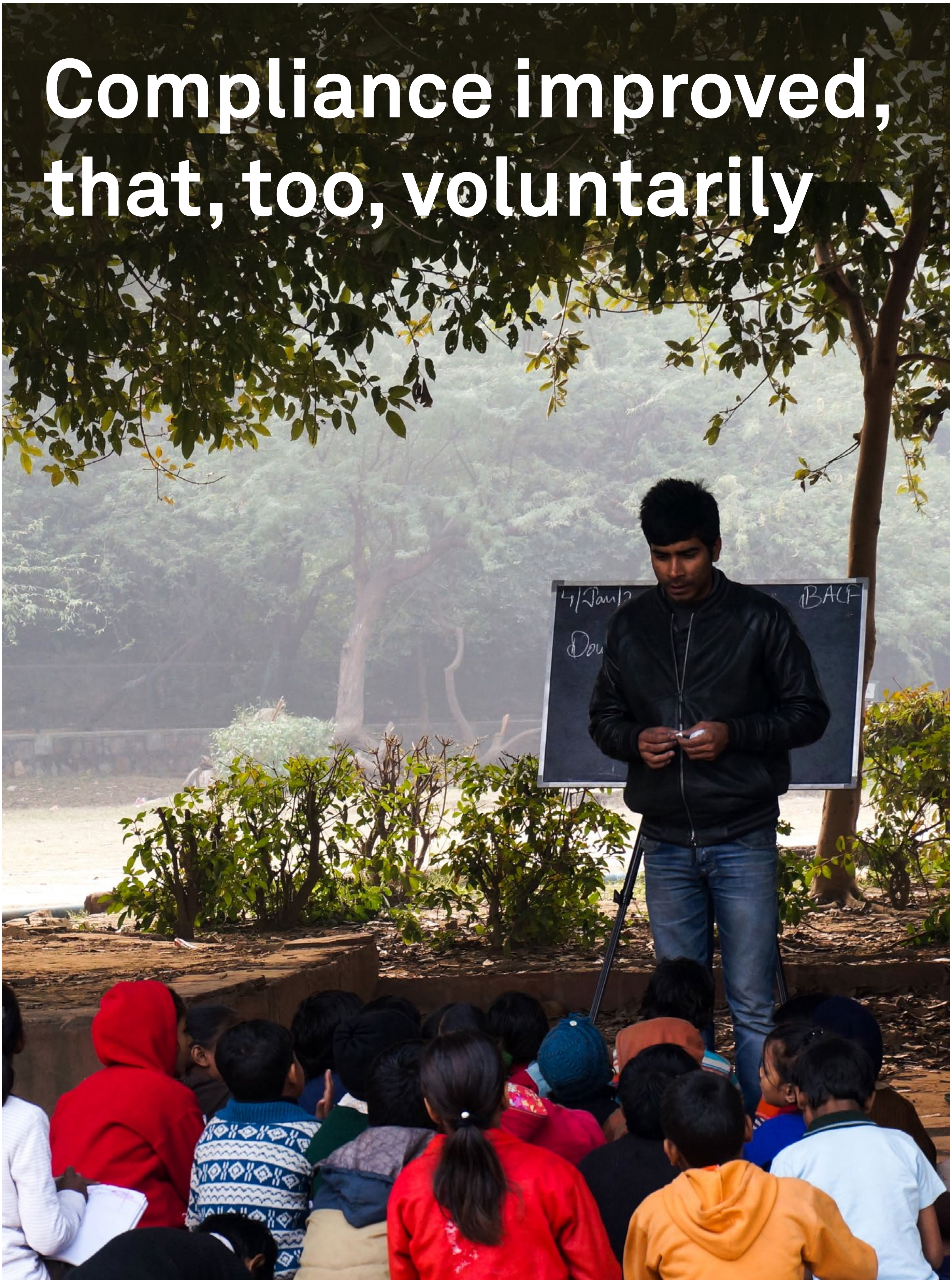
We also conducted a survey to see how corporate India is approaching the task, from selection of geography to putting in place implementation teams. The findings corroborated our takeaways on increased reliance on implementing agencies.

Thus, while the improvement in CSR parameters is heartening, we find that NGOs are driving CSR outcomes as companies have not invested in building their capacity to provide strong oversight.

We believe this has to do with the stipulation that overhead cost cannot exceed 5% of the total CSR spend. Respondents in our survey, too, indicated this limit is holding them back from engaging more directly.

Some regulatory intervention can help here. An increase in the limit can ensure a more direct involvement of companies by helping them build bigger teams for CSR. Also, as the use of implementing agencies is inevitable for execution, steps can be taken to promote benchmarking of NGOs to gauge their execution capability and usher in standardisation.

Compliance improved, that, too, voluntarily



The Companies Act, 2013, requires a company to spend 2% of its average net profit of the preceding three years on CSR if it had in any of those years net worth of Rs 500 crore or more, turnover/revenue of Rs 1,000 crore or more, or net profit of Rs 5 crore or more.

In fiscal 2017, of the 4,939 companies listed on the the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), 1,688 met the criteria for mandatory CSR spending under Section 135 (5) of the Act.

Of these, 502 could not be considered for the study (see Methodology on page 22). The remaining 1,186 together spent Rs 8,912.7 crore, up 6.8% from fiscal 2016.

More and more

Companies and their CSR spends		
FY17	1,186	Rs 8,912.70 crore
FY16	1,158	Rs 8,348.50 crore
FY15	1,024	Rs 6,839.30 crore

Two things of note here:

- The improvement came despite slower profit growth. On a two-year CAGR basis, CSR spend increased at 14% between fiscals 2016 and 2017, compared with a 5% growth in profit.
- Growth came on a high base, too, as fiscal 2016 had seen a sharp spurt in spending, given the government's push to special schemes such as Swachh Bharat Abhiyaan.

This suggests a large part of the improvement was voluntary, which means corporates are increasingly heeding the call of philanthropy.

Around 70% of the companies spent more on CSR compared with fiscal 2016. Around 57% spent 2% or more of their net profit, which was a touch over the 55.9% seen in fiscal 2016. Nearly a tenth spent a generous 3% or more, while nearly a fifth came across as tight-fisted, having spent under 1%.

The spending of companies that met the 2% mandate increased to Rs 5,855.4 crore (65.7% of Rs 8,912.7 crore) from Rs 5,321 crore (63.7% of Rs 8,348.5 crore) in fiscal 2016.

Total CSR spend as a percentage of net profit, though, dropped a tad.

Slight droop

CSR spend as a % of net profit	
FY17	2.05%
FY16	2.28%
FY15	1.80%

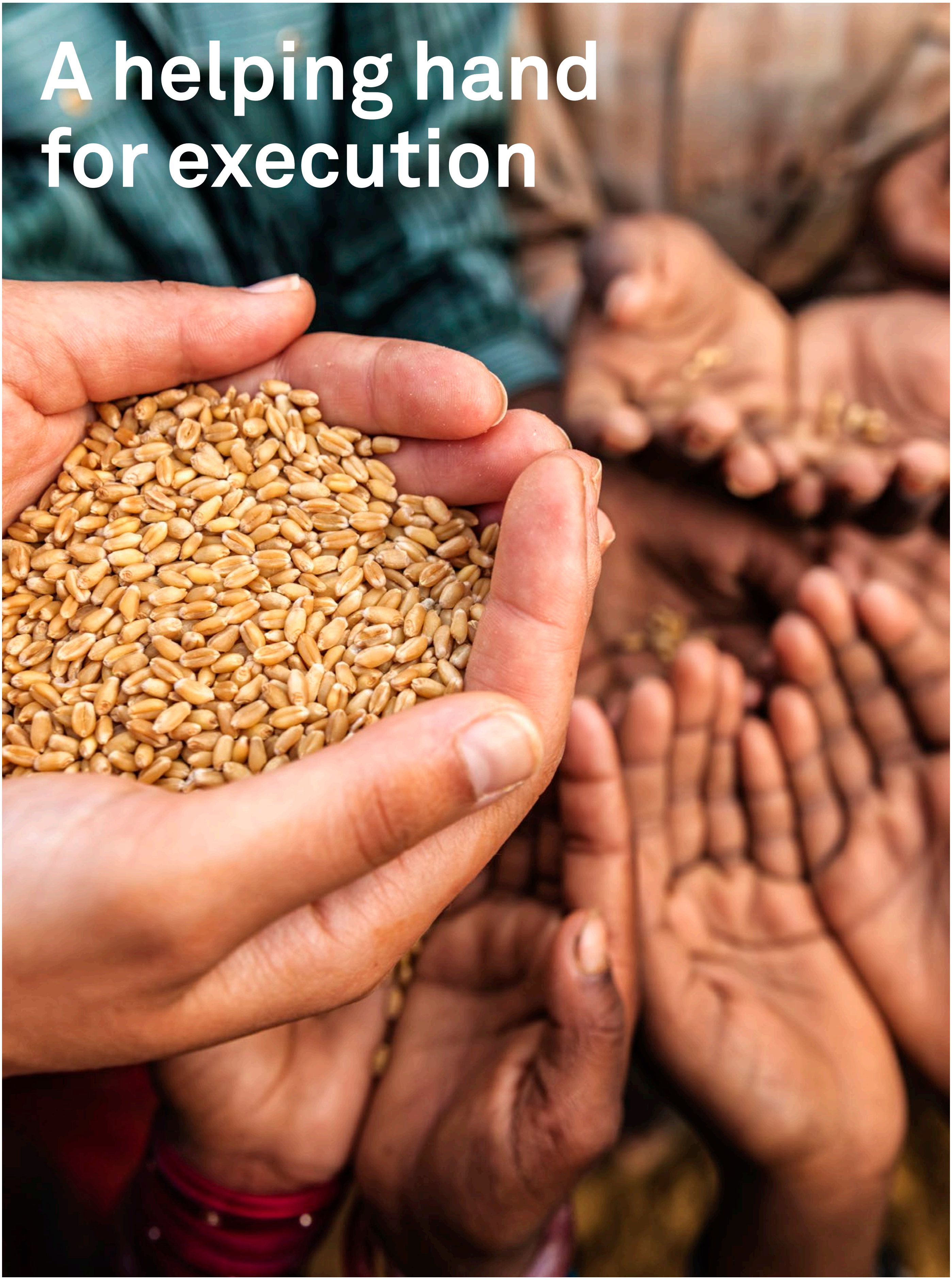
The total spend would have increased by Rs 1,640 crore had all the companies spent at least 2%.

For this analysis, we split the companies by net sales in fiscal 2017 into small (<Rs 500 crore), medium (>Rs 500 crore to <Rs 1,500 crore) and large (>Rs 1,500 crore).

Predictably, large companies accounted for ~80% of the total spending.

However, smaller companies continued to be relatively more generous, spending 2.1% of net profit on average – but down from 2.4% in fiscal 2016. In comparison, the average CSR spend of medium companies fell to 2% from 2.3%, while that of large ones was flat at 2%.

A helping hand for execution



The use of implementing agencies shot up last fiscal, with 74.2% of the companies engaging NGOs, compared with 61.8% in fiscal 2016.

The increase was seen across categories.

While all companies that spent upwards of Rs 100 crore on CSR used implementing agencies, interestingly, 63% of those that spent less than Rs 50 lakh also did.

The surge among small companies was somewhat counterintuitive given their smaller kitties, but shows they are heeding the call to give back to society alongside complying with the law.

Engaging NGOs...

% of companies using implementing agencies, based on their sales bracket		
Company size	**FY16**	**FY17**
Small	55.00%	67.40%
Medium	65.40%	74.60%
Large	71.70%	85.90%

A survey we conducted to gauge how companies are implementing CSR corroborated these findings.

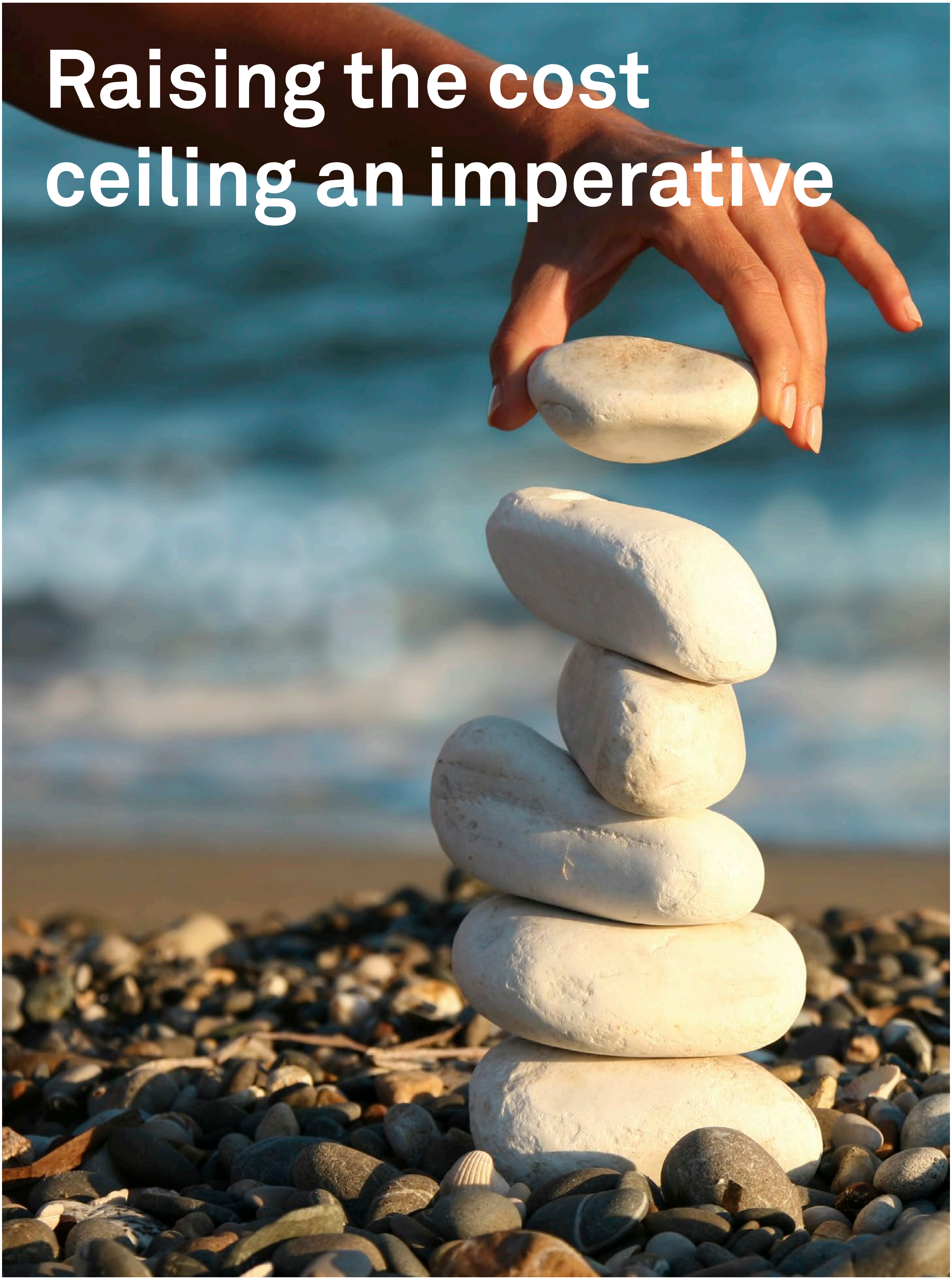
A fifth of the companies surveyed said they were spending on CSR through implementing agencies, while 40% have a dedicated CSR department, 25% have set up a foundation, and 15% use their corporate affairs/ communication or human resources department, among others.

However, almost two-thirds of the companies have up to five people handling CSR – in fact, nearly 30% have just one or two personnel. This gives reason to believe the majority are implementing CSR projects through NGOs.

...has boosted compliance

Companies using implementing agency	Total amount spend in 2017 (Rs crore)	% of net profit
Yes	8,496	2.10
No	416	1.95
Total	**8,912**	**2.05**

Raising the cost ceiling an imperative



The growing use of NGOs for implementing CSR can be attributed to the limit set under the rules on the expenditure that can be incurred for implementing CSR projects.

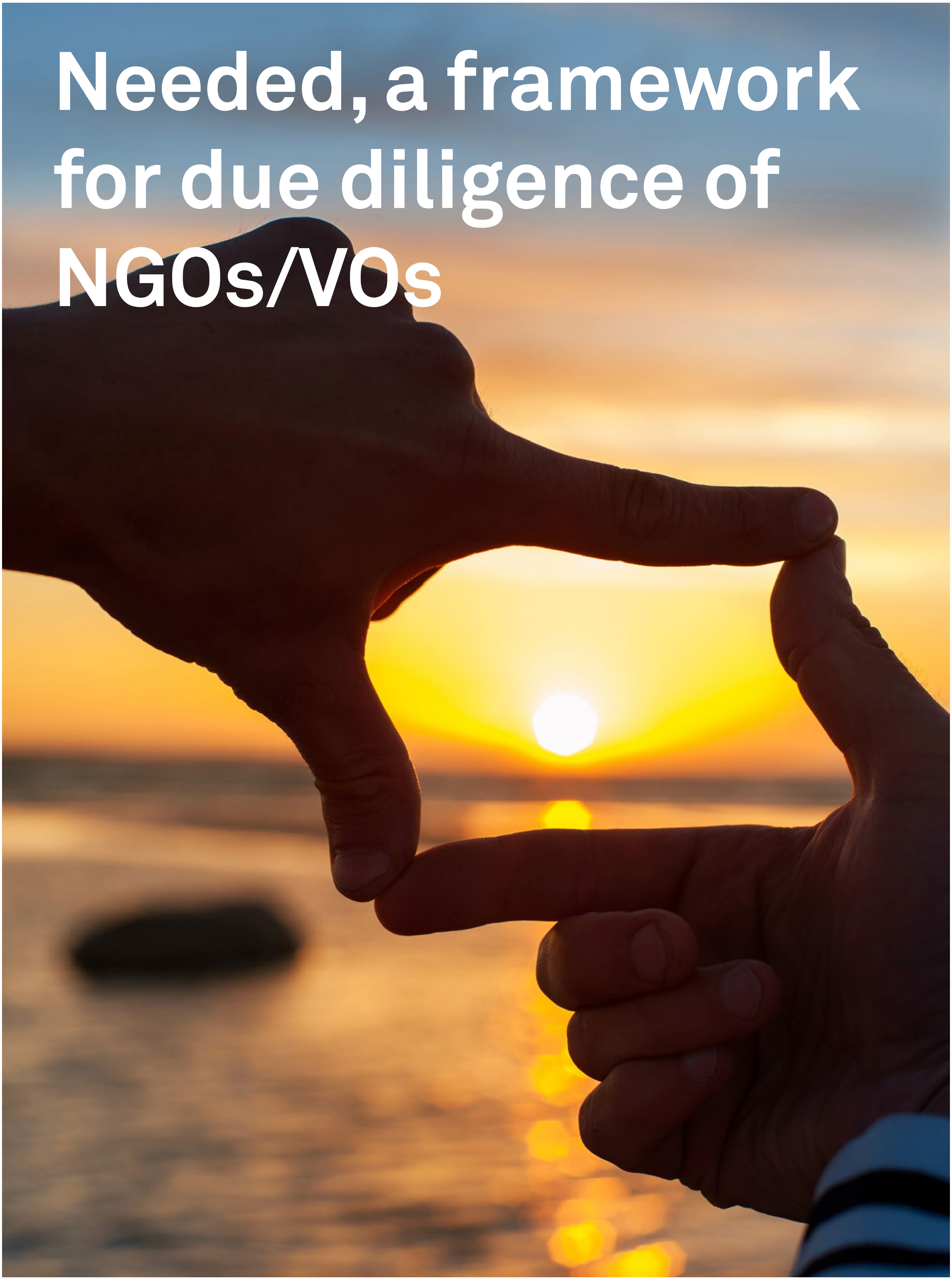
Under the amended Rule 4(6) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, companies may build CSR capacities of their own personnel as well as those of other implementing agencies through institutions with established track record of at least three financial years. But such expenditure, including expenditure on administrative overheads, should not exceed 5% of the total CSR expenditure of the company in one financial year.

In our survey, we also asked how the companies were determining the overheads related to CSR, and what all, according to them, should be covered under the head.

The respondents pointed out that implementing CSR entailed multiple costs – salaries of dedicated CSR staff, administrative overheads, establishment expenses, CSR communication expenses, professional fees and statutory filing, and related consultancy, to name some – and it was not possible to keep all of these within the 5% limit permissible.

The refrain, therefore, was that the limit should be hiked.

Needed, a framework for due diligence of NGOs/VOs



Non-governmental organisations (NGOs), or voluntary organisations (VOs), become a natural fit for executing CSR projects given their presence in the target areas, local knowhow, and resources, besides experience in executing social projects, which a company would typically lack.

However, considering CSR today is a high-stakes game, with a corpus above Rs 8,900 crore, there is a case for ensuring robust due diligence before appointing an NGO/VO partner.

Components of a due diligence framework

Governance and impact achieved are two key areas to consider when assessing NGOs/VOs. A due diligence exercise must be designed to measure both.

Gauging governance would involve ascertaining the partner's legal existence and commitment to transparency.

Articles or Memorandum of Association, PAN card, Form 12A (registration of a charitable trust or society) and audited statement of accounts are a few documents that can validate the legal existence of the NGO/VO.

To understand the organisation's commitment to good governance, one needs to study its structure, management and implementation teams, ethics policies, robustness of MIS and other reporting mechanisms, processes of dealing with irregularities, internal mechanisms for approval, and risk management, etc.

A formal declaration of donors and funds received from them, along with the synopsis of the projects in hand, and/or completed in the year, can also indicate an organisation's commitment to transparency.

The second key aspect is to gauge the capabilities of the organisation and the impact it has achieved on the ground.

Therefore, the exercise should glean insights into the scale of work the NGO/VO is accustomed to, with details such as the tenure and ticket size of projects undertaken. Public disclosure documents such as annual reports afford this.

Reference checks with at least three existing donors can provide authentic feedback on the ability of the NGO/VO to accomplish desired project outcomes. Insights from such feedback – that validate or prove otherwise an organisation's internal administration, and ability to drive resources for sustainable impact at the grassroots in keeping with a grant's terms and conditions – go a long way in determining which implementation partner to invest in, and how much.

Interactions with key stakeholders, beneficiaries, project staff, and the community at large, are also legitimate sources that indicate the impact of a project.

Finally, third party evaluations such as NGO/VO grading should be considered for an independent review of a potential partner's ability to drive the desired social impact.

Benchmarks for social impact, through VO grading

A grading is an independent opinion on a VO's relative capability to achieve its objectives in a sustained manner.

The evaluation framework used by CRISIL Ratings for grading VOs additionally takes into account diversity of resource mix; management profile; programmatic niche; and process framework. CRISIL's experience in this domain suggests these factors influence the ability of a VO to achieve its desired objectives.

CRISIL-graded VOs have seen an improvement in corporate grants

CRISIL-graded VOs have to their credit interventions in areas such as education, childcare, water, sanitation and hygiene, rural development and livelihood, affordable housing, environment, and elderly care.

These VOs mobilise resources from institutional donors – government and corporate – besides aid agencies and retail donations.

CRISIL's assessment of VOs, including a few leading players, indicates grants from corporates have seen stable growth in the past two fiscals.

Corporate grants looking up for CRISIL-graded VOs

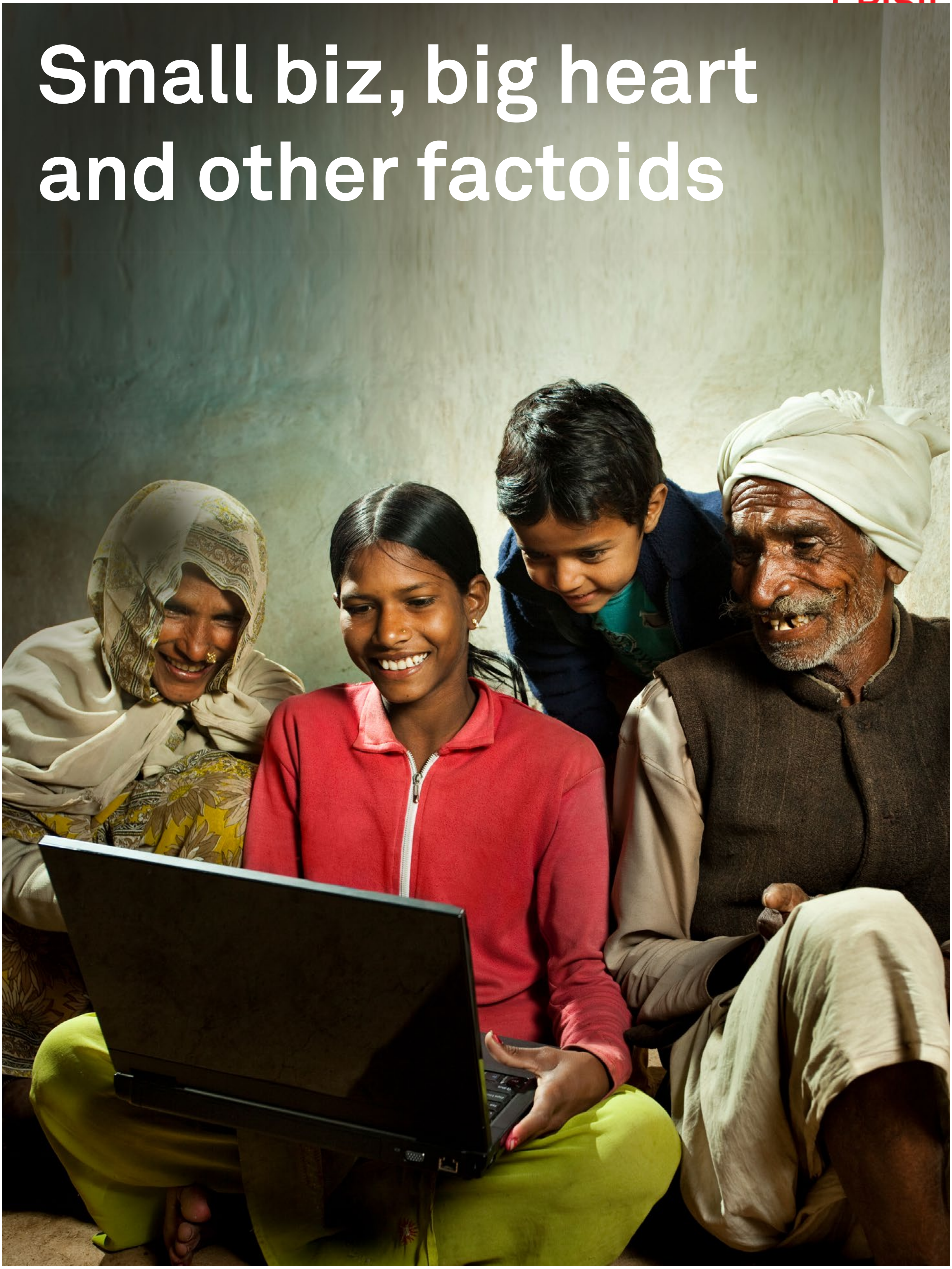
	FY16	FY17
Rise in corporate grants to CRISIL-graded VOs	22.90%	25.10%
Three-year CAGR (FY15-FY17)	15.30%	

Benchmarking can be a win-win

We believe such benchmarking would benefit corporates and NGOs/VOs alike. Corporates would be able to shortlist NGOs with superior programmatic delivery capabilities for CSR, helping them meet the mandated spend under the Companies Act, 2013. The NGOs/VOs, on the other hand, can diversify their resource pie by gaining sustained access to corporate funding.

Increasingly important, also, is extension of non-grant support from corporates to NGOs they engage for CSR. Such support can be in the form of capacity building measures, assistance to strengthen documentation practices and report process framework, besides personnel development and training.

Small biz, big heart and other factoids

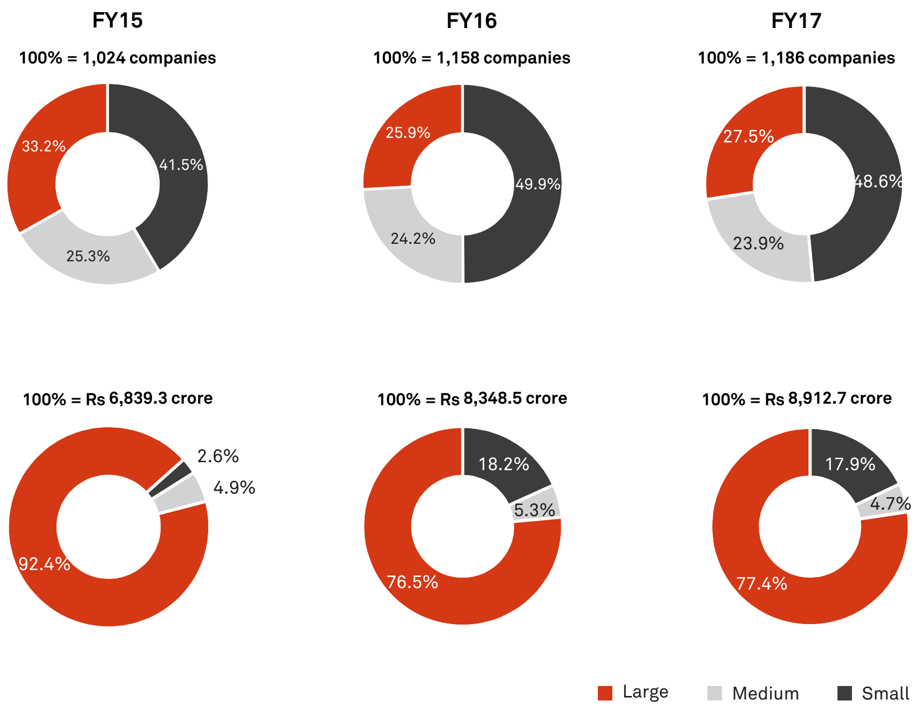


Biggies split it 80:20 almost, but mid-size conundrum continued

Large companies lived up to their billing, accounting for 27.5% of the number of companies but 77.4% of the spending. This was similar to fiscal 2016.

However, the share of mid-size players in total CSR spend was a paltry 4.7% despite accounting for nearly a quarter of all companies. Curiously, the trend has held in all three years.

Distribution by company size



Small companies more altruistic

Small companies were 48.6% of the pie in number and accounted for 17.9% of the total spend. This was similar to fiscal 2016, but a vast improvement over fiscal 2015.

A segregation of average CSR spend by size of company shows the minnows continued to punch above their weight, at an average 2.1% of their net profit, albeit down from 2.4% in fiscal 2015.

Average CSR spend of medium companies was down to 2% from 2.3%, while that of large ones was flat at 2%.

Of the small companies, 43.2% spent less than 2%, while 8.7% spent 3% or more. The proportions were similar for medium and large companies, meaning around half the companies spent 2-3% on CSR.

Education and health got bulk of the spend

Among the segments of spending, education & skill development got the lion's share of CSR money, improving its share to 36.59% from 32.2% the previous fiscal.

Healthcare & sanitation, rural development, and environment were the next big areas of spend.

Among other key areas, allocation to empowerment, national heritage protection, and promotion of sports was in low single digits, while relief funds, benefits for armed forces veterans and families, slum area development, and funds for technology development got less than 1% each.

About 6.82% of the spending was not defined in terms of the activity it went into.

Few surprises in spending heads

	FY17			FY16			FY15		
Activity	**No. of companies**	**Total amount (Rs crore)**	**% amount spent**	**No. of companies**	**Total amount (Rs crore)**	**% amount spent**	**No. of companies**	**Total amount (Rs crore)**	**% amount spent**
Education & skill development	953	3261.10	36.59%	879	2,686.20	32.20%	711	2,250.20	32.90%
Healthcare & sanitation	862	2263.00	25.39%	776	2,614.20	31.30%	619	1,875.20	27.40%
Rural development	286	1152.80	12.93%	269	1,123.00	13.50%	200	891.60	13.00%
Environment	394	905.90	10.16%	331	563.70	6.80%	264	623.40	9.10%
Empowerment	327	276.20	3.10%	329	269.00	3.20%	177	139.80	2.00%
National heritage protection	143	203.50	2.28%	109	127.20	1.50%	87	120.30	1.80%
Promotion of sports	165	162.30	1.82%	130	77.60	0.90%	97	89.40	1.30%
Relief funds	73	34.60	0.39%	185	493.50	5.90%	145	216.40	3.20%
Benefits for armed forces veterans & families	27	34.20	0.38%	18	3.50	0.04%	14	14.50	0.20%
Slum area development	5	7.50	0.08%	7	5.40	0.10%	0	0.00	0.00%
Funds for technology development	9	3.90	0.04%	17	127.70	1.50%	6	15.10	0.20%
Others*	313	607.70	6.82%	214	257.60	3.10%	365	605.50	8.90%
Total spend		**8,912.70**			**8,348.50**			**6,839.30**	

*Others includes amounts that are not segregated under defined activities

Biggies tilted the balance for public companies

Public sector companies accounted for just over 4% of the number of companies, but accounted for nearly 28% of the spending, at Rs 2,477 crore. The bulk of these were large companies.

The CSR spend would have been higher, had all public sector companies reached the compliance mark. However, a third of these, including 13 large ones, spent less than 2% each.

Still, the proportion of public companies that spent more than 2% was higher than private peers.

Public companies more altruistic than private

CSR spend as a percentage of profit	Private sector companies (1,137)			Public sector companies (49)		
	Small	Medium	Large	Small	Medium	Large
Less than 2%	246	119	130	3	1	13
Between 2% and 2.99%	273	134	136	4	7	16
3% and above	49	23	27	1		4
Total number of companies	**568**	**276**	**293**	**8**	**8**	**33**

Ticket size was smaller for private companies

Large private companies accounted for a quarter of the private universe, and just under 75% of the total spending on CSR by private companies.

However, their average spend was a quarter of that of large public sector peers. Besides, nearly 45% of the large ones spent less than 2%.

Half of the private companies were small, and they accounted for a fifth of the spending in this segment. By contrast, a quarter of the private companies were mid-sized, but accounted for less than 6% of the spending.

Overall, around 42% of the private sector companies spent less than 2% on CSR, while over 8% spent more than 3%.

Private companies more in number but tote up less than public peers

CSR spend as percentage of profit	Private sector companies (in Rs crore) Total Rs 6,435.70 crore			Public sector companies (in Rs crore) Total Rs 2,477.00 crore		
	Small	Medium	Large	Small	Medium	Large
Less than 2%	731.50	115.80	1,413.50	1.90	0.70	786.90
Between 2% and 2.99%	536.60	207.30	2,969.40	169.20	46.20	1,256.10
3% and above	30.60	47.30	383.60	128.10		87.90
Total CSR spend of companies	**1,298.70**	**370.40**	**4,766.60**	**299.20**	**46.90**	**2,130.90**

Among industries, energy remained the largest spender

Among the industries, energy accounted for just 3.1% of the companies, but 28.1% of the total spend as the constituents spent 2% on average. Its contribution, though, has fallen consistently over the years.

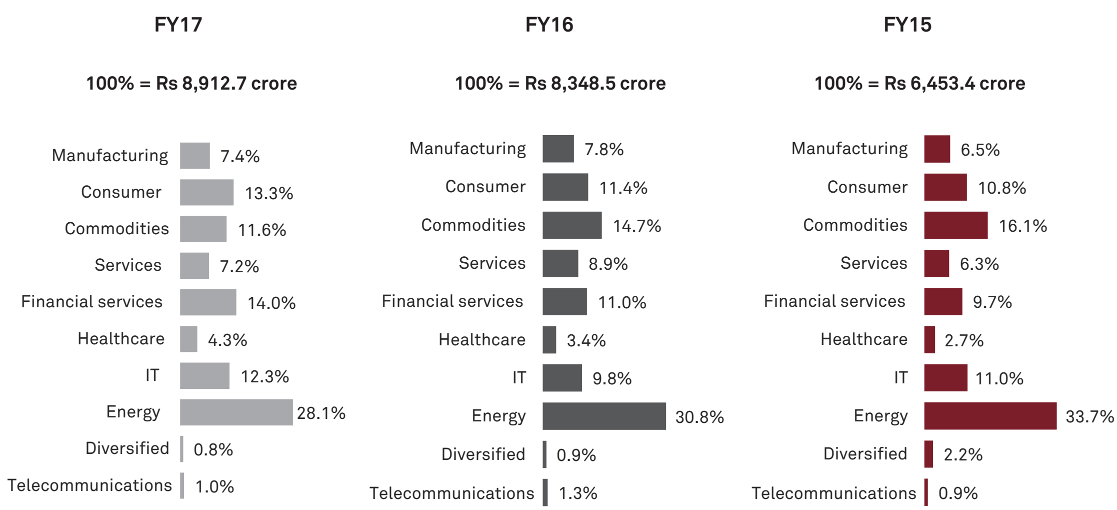
The contribution of financial services and healthcare, though, improved sharply.

Manufacturing, consumer, and commodities together accounted for 60% of the number of companies, but barely a third of the spending. The cumulative contribution of the three declined slightly.

Also, the contribution of services declined, although its share of the number of companies was almost similar to the previous fiscal at 11.8%.

Telecom hogged the bottom, with the least number of players, the least contribution to total spend (1%), and the lowest average spend (1.3%).

Contribution of services declined



Maharashtra got a lion's share of spend

The top 10 states accounted for 95.6% of the total CSR spend.

Maharashtra accounted for the lion's share of the pie at 43.3%, up from 40.5% in fiscal 2016, despite the number of companies remaining unchanged at 391.

However, the share of National Capital Territory of Delhi dropped 400 bps to 20.7%, even though the number of companies increased from 128 to 139.

Gujarat's share inched up from 7.97% to 8.23%, in line with an increase in the number of companies from 118 to 126.

Gujarat saw fastest growth in compliance

	FY17			FY16			FY15		
States	**No. of companies***	**Less than 2% on CSR**	**2% or more on CSR**	**No. of companies**	**Less than 2% on CSR**	**2% or more on CSR**	**No. of companies**	**Less than 2% on CSR**	**2% or more on CSR**
Maharashtra	391	43.00%	57.00%	391	45.30%	54.70%	316	49.00%	51.00%
NCT of Delhi	139	43.90%	56.10%	128	45.30%	54.70%	115	61.00%	38.00%
Gujarat	126	38.10%	61.90%	118	45.90%	54.10%	88	48.00%	51.00%
Tamil Nadu	106	41.50%	58.50%	111	40.50%	59.50%	90	43.00%	57.00%
West Bengal	94	38.30%	61.70%	86	43.10%	56.90%	66	45.00%	56.00%
Karnataka	62	56.50%	43.50%	56	46.50%	53.50%	42	57.00%	43.00%
Telangana	57	47.40%	52.60%	59	47.50%	52.50%	50	54.00%	46.00%
Rajasthan	34	41.20%	58.80%	30	43.40%	56.60%	29	51.00%	48.00%
Haryana	31	35.50%	64.50%	29	34.50%	65.50%	24	38.00%	62.00%
Uttar Pradesh	29	55.20%	44.80%	30	23.40%	76.60%	32	38.00%	62.00%
Rest of India	117	44.40%	55.60%	120	45.90%	54.10%	98	42.00%	57.00%

*By registered head office

Barring Uttar Pradesh and Karnataka, more than half the companies in all states spent 2% or more on CSR.

In Uttar Pradesh, the number of companies spending 2% or more dropped 31.77 percentage points to 44.8%. For Karnataka, the drop was less steep, at 10 percentage points, to 43.5%.

At the other end, Gujarat showed the maximum increase (7.7%) in the number of companies that spent 2% or more.

Haryana remained on top in terms of companies spending 2% or more, despite a 1 percentage point decline to 64.5%.

Methodology

We began with 4,939 companies listed on the BSE and the NSE on the basis of three financial parameters in any of the preceding three 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

In all, 1,688 companies met the criteria for mandatory CSR spending under Section 135 (5) of the Companies Act, 2013.

Of these, 502 companies could not be considered for the study (130 did not spend at all on CSR; 23 did not report any such spend; for 108, annual reports were not available; 180 claimed they were not required to spend on CSR; and 61 others said they had spent despite not being required to). The remaining 1,186 companies were considered for the study.

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 data points to arrive at the conclusions. Data for this was sourced from CRISIL, stock exchange websites, and other public sources.

For the survey, we reached out to over 100 corporates. The list was well-distributed, with large, medium and small companies. We got nearly 50 responses within the small window offered. The survey used questions, with a field for comments.

About CRISIL Limited
CRISIL is an agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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. As a responsible corporate citizen, it is our mission to empower communities within and beyond our areas of operations. Mein Pragati, the flagship financial capability building programme run by CRISIL Foundation, enables disadvantaged communities by strengthening their financial capabilities. In two years, Mein Pragati has reached out to more than 100,000 women in Assam. Efforts to scale up Mein Pragati will result in outreach to more than 80,000 women in Rajasthan by 2018. CRISIL Foundation is also setting up 20 centres, under the Reserve Bank of India's (RBI's) pilot project to drive financial literacy and inclusion, at the block level to facilitate greater access. The foundation is leveraging the Mein Pragati with corporate foundations across cities, and customising interventions through strategic partnerships. To sustain impact, efforts to develop a network of skilled community and village-based resource persons, and nurture an enabling environment are ongoing.

CRISIL RE, the flagship community outreach programme in cities, empowers CRISIL's vibrant workforce as agents of change in Ahmedabad, Chennai, Gurugram, Hyderabad, Kolkata, Mumbai, Pune, and Bengaluru. The programme uses a combination of centrally driven and employee-led projects for social impact and community outreach, engaging more than more than 50% of CRISIL's employee base, and facilitating a better quality of life for the urban poor