

Rs 500,000,000,000

CSR stakes claim as an able ally in the welfare push of governments.
Will the momentum hold?



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Executive summary

Four fiscals after being made mandatory, corporate altruism has hit a few laudatory milestones.

Cumulative spending topped Rs 50,000 crore last fiscal, including Rs 34,000 crore by listed companies and nearly Rs 19,000 crore by the unlisted ones.

That's two-thirds of the fiscal 2018 Union Budget allocation for education, and a little more than that for health and family welfare – also the two key Corporate Social Responsibility (CSR) spending heads.

Overall, 1,913 companies met the eligibility criteria, of which, 667 were unable to spend for various reasons. Of the balance 1,246, over two-thirds spent 2% or more of their profits, compared with 57% in fiscal 2017. And 12%, or 153 companies, spent 3% or more.

Interestingly, the on-year growth in spending on CSR by our select set was the same as the on-year growth in its profit – at 12%.

Large companies continued to hog the credit, both in the public and private sectors.

Energy companies opened the purse widest, with 51 of them spending Rs 2,253 crore, or 23% of the overall spending, followed by manufacturing, financial services and information technology services.

Among the states, CSR spend by company was the highest in the National Capital Territory, closely followed by Karnataka and Maharashtra.

As for the spending heads, while education & skill development and healthcare & sanitation remained on top, national heritage protection and promotion of

sports emerged as two areas that have grown by leaps and bounds since fiscal 2015.

And as in the previous years, nearly three-fourths of eligible companies used implementing agencies.

Meanwhile, the rules of the game have changed, too, with the Companies (Amendment) Act, 2017, saying eligibility criteria would now be based on financials of the 'immediately preceding financial year' rather than the earlier stipulation of 'any three preceding financial years'.

Our estimate shows this can shrink the universe a touch in years to come, in terms of both number of companies and their total spend.

All the same, as spending reaches meaningful proportions, there is a need to improve the quality and impact of all that spend on the ground.

To this end, we see three clear imperatives:

1. The stipulation to limit all expenditure to 5% of the CSR amount needs a relook, because companies have pointed this out as a factor holding them back from enhancing their in-house CSR capacities
2. Considering CSR has become such a high-stakes game, there is a case for ensuring robust due diligence before appointing a non-government or voluntary organisation (NGO/VO) as partner
3. Independent third-party evaluations such as NGO/VO grading should be considered to gauge a potential partner's ability to drive the desired social impact

CSR spend tops Rs 50,000 crore in 4 fiscals

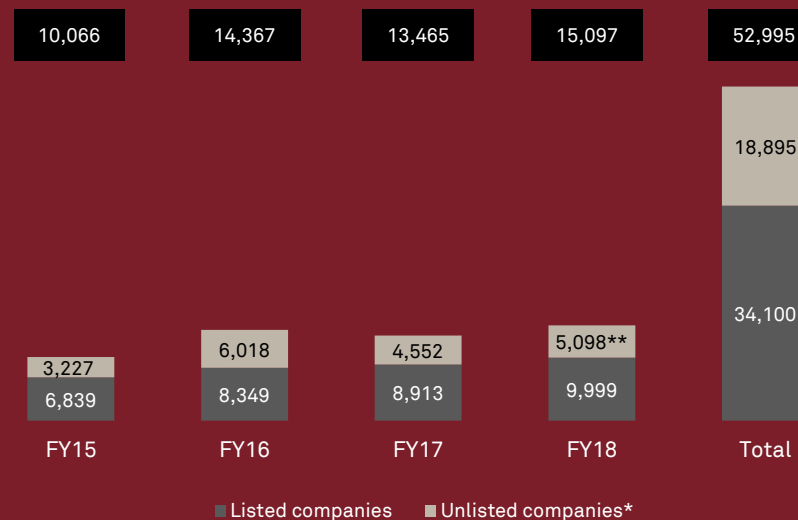
Cumulative spending on CSR has shot past the magical Rs 50,000 crore mark in just four years since the legislative mandate was implemented.

A CRISIL estimate shows spending by listed companies rose 12% on-year in fiscal 2018 to ~Rs 10,000 crore – the first time it has reached this mark.

Assuming the same rate of growth, spending by unlisted companies is estimated to be ~Rs 5,100 crore for the year, taking the total for the year to ~Rs 15,100 crore.

With this, cumulative spending over the four years stands at ~Rs 34,100 crore for listed companies and ~Rs 18,900 crore for unlisted ones, totalling ~Rs 53,000 crore.

For perspective, that's two-thirds of the budget allocation to education and a little more than the allocation to health and family welfare – the two key CSR spending heads – for fiscal 2018.



* Spending by unlisted companies has been obtained by deducting CRISIL's estimate for listed companies – based on Prowess data – from the total spend mentioned on MCA website for each year.

** For fiscal 2018, the MCA numbers are still not available. Hence, we have assumed spending by unlisted companies to have logged the same on-year growth rate as that of listed companies.



Number of companies and overall spend improved last fiscal...

Under the Companies Act, 2013, a company is required 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 2018, of the 4,832 companies listed on the Bombay Stock Exchange and the National Stock Exchange, 1,913 met the criteria for mandatory CSR spending under Section 135(5) of the Act. Their financial performance was analysed based on data sourced from Prowess (CMIE).

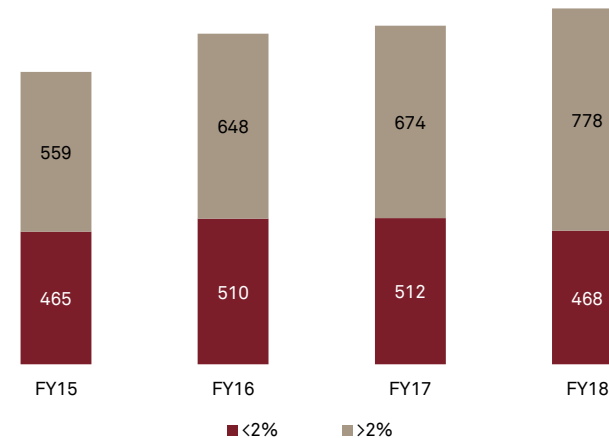
Of these 1,913 companies, 341 said they were unable to spend because of various reasons (delay in identifying projects, setting up the requisite in-house expertise, etc). Another 45 did not report CSR activity in their annual report, while for 118, annual reports for fiscal 2018 were not available either on their websites or on those of the stock exchanges. A further 163 said they were not required to spend either because they did not meet the criteria or were loss-making.

That left us with 1,246 companies, or 65% of the eligible set. Together, these 1,246 companies spent close to Rs 10,000 crore on CSR during the fiscal, which was 12% higher on-year.

Interestingly, profit growth for the select set was also at 12% for the fiscal, indicating CSR spending has started stabilising. Over fiscals 2016 and 2017, CSR spend had logged a CAGR of 14% compared with a 5% growth in profit.

Of the 1,246 companies, 62%, or 778 companies, spent 2% or more of their profits, compared with 57% the previous fiscal. And 12%, or 153 companies, spent 3% or more.

The generosity quotient



The amount spent in the 2% or more bracket increased 35% to Rs 7,892 crore from Rs 5,856 crore in fiscal 2017. Over 48% of the total spend came from companies that spent 2-2.99% of their profits.

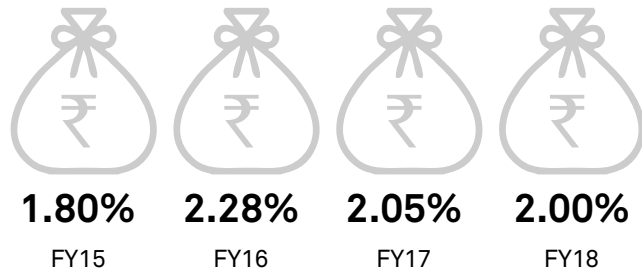
At the other end, 468 companies did not meet the target last fiscal. Indeed, 211 of these spent less than 1%.

...though average proportion of profits spent was lower

While the absolute total CSR spend of listed companies printed higher on-year last fiscal, it fell marginally short of the previous year in terms of percentage of profits.

The profit slice

Total CSR spend as a percentage of net profit



Our estimate shows that an additional Rs 2,380 crore would have been spent last fiscal had all the listed companies spent the stipulated 2% of their profits.

Add the unspent amount in all the other years to the Rs 53,000 crore spent, and the total would have even crossed the Rs 60,000 crore mark.



New eligibility norm could shrink the universe

As per the Companies (Amendment) Act, 2017, the eligibility criteria for spending on CSR would now be based on financials of the “immediately preceding financial year” rather than the earlier stipulation of “any of the three preceding financial years”.

We believe this would shrink the universe somewhat – both in terms of total number

Imminent shrivel

	Under old policy	Under new policy
Listed companies spending on CSR	1,246	1,171
CSR spend in fiscal 2018	Rs 9,999 crore	Rs 9,977 crore

To be sure, the requirement to spend 2% of average net profit of the three immediately preceding financial years continues as before. The government has only inserted an explanation in subsection (5) of Section 135 of the Companies Act that reads:

For the purposes of this section “net profit” shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of Section 198.

...though other changes may have a salutary effect

Among other changes in CSR regulations following an amendment of the Companies Act, 2013, the

of companies and their spending on CSR – considering the number of unique companies reporting profits in a single fiscal would typically be less than those reporting in any of the three immediately preceding fiscals.

The potential impact of this on our set of companies for fiscal 2018, for instance, would have been as follows:

earlier requirement of mandatorily appointing an independent director under sub-section (4) of section 149 has been eased for some companies. A company not required to appoint an independent director would now be required to have in its CSR committee two or more directors.

Also, the term ‘activities’ has been broadened to mean ‘activities, areas or subjects’ as specified in Schedule VII.

On a separate note, several more changes have been proposed and further amendments of the Act are likely in days to come.

The proposals include transfer by the company of any unspent CSR amount within 30 days from the end of the financial year to ‘a special account to be

opened by the company in that behalf for that financial year in any scheduled bank', to be called 'the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer'.

We believe these changes – effected as well as proposed – will materially alter the CSR landscape and hopefully speed up implementation.

In the context, the imperatives

As spending reaches meaningful proportions, there is a need to improve the quality and impact of all that spend on the ground.

To this end, we see three clear imperatives.

First, the stipulation to limit all expenditure to 5% of the CSR amount needs a relook. Over the years, respondents in our surveys have singled this out as a factor holding them back from enhancing their in-house CSR capacities. After all, implementation entails multiple costs such as salaries of dedicated CSR staff, administrative overheads, establishment expenses, CSR communication expenses, professional fees, statutory filing and related consultancy, etc, which are difficult to keep within the 5% limit permissible.

Second, considering CSR has become such a high-stakes game, there is a case for ensuring robust due diligence before appointing an NGO/VO partner. As we had noted in our report last year, governance and impact achieved are two key areas to consider when assessing NGOs/VOs. A due diligence exercise must be designed to measure both.

Third, independent third-party evaluations such as NGO/VO grading should be considered to gauge a potential partner's ability to drive the desired social impact.



Other factoids

Companies across size buckets remain altruistic

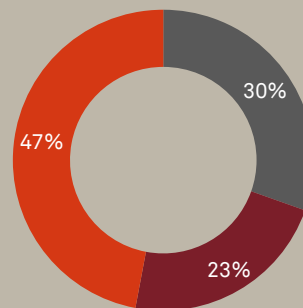
For this analysis, we split the companies by net sales in fiscal 2018 into small (<Rs 500 crore), medium (>Rs 500 crore to <Rs 1,500 crore) and large (>Rs 1,500 crore).

Large companies were 30% of the total (100% = 1,246) and somewhat predictably, accounted for 79% of the spend.

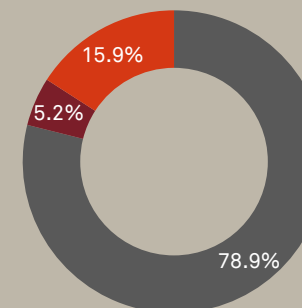
At the other end, small companies were 47% of the total and accounted for 16% of the spend.

But in a continuation of the conundrum from last year, mid-size companies were 23% of the pie but spent just 5%.

Share in number of companies

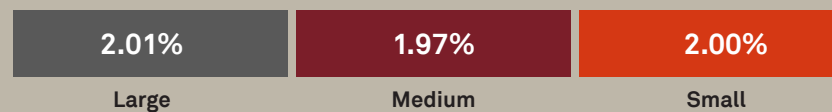


Share in CSR spend



■ Large
■ Medium
■ Small

Average CSR spend



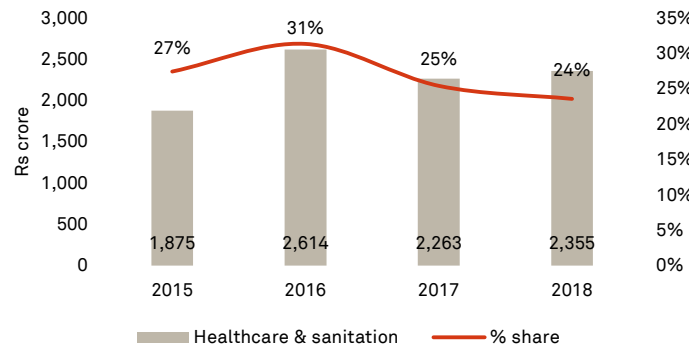
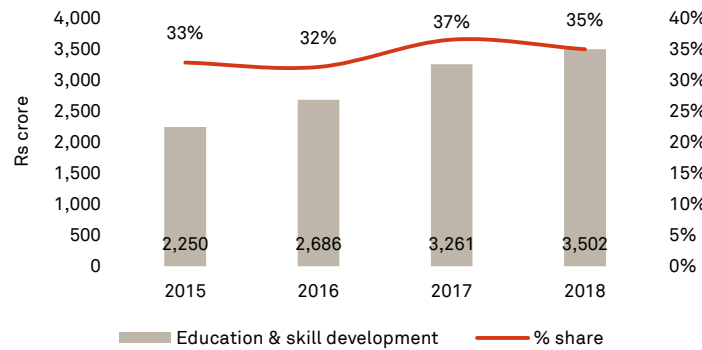
On average, however, all three categories spent ~2% of their profits on CSR.



Education and healthcare remain top spending heads

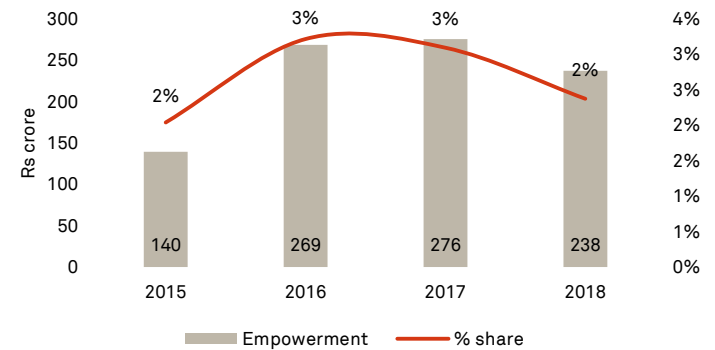
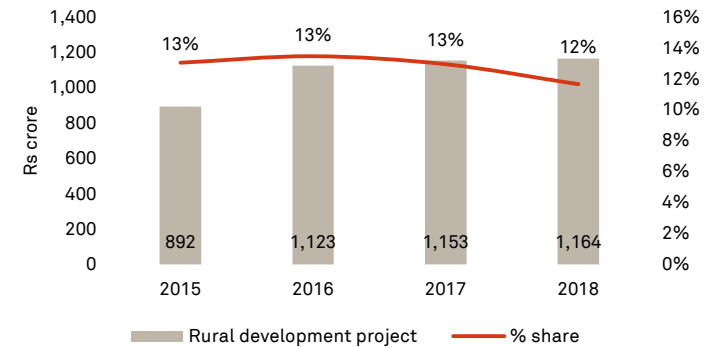
Education & skill development got investments from the most number of companies. It was also the top spending head, with 35% of total CSR spend.

Healthcare & sanitation came in second, with 24% of the pie.

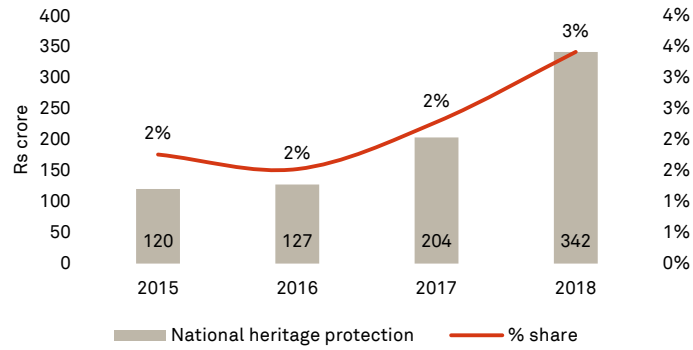


However, the share of these two top heads was down nearly 300 bps from the fiscal 2017 level.

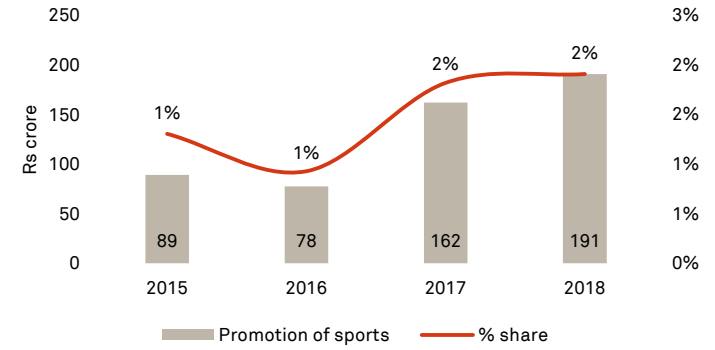
Among others, rural development, empowerment, and benefits for armed force veterans also saw their shares come off.



However, national heritage protection and promotion of sports saw significant improvement in their share.



Indeed, over the four fiscals through 2018, spending on national heritage protection almost tripled, while that on promotion of sports almost doubled.



PSUs just 4% of the set, but spend a quarter of the total

In line with previous years, public sector undertakings (PSUs) accounted for just 4% of the total number of companies but contributed a quarter of

the spend. A whopping 91% of the spend in the PSU category was by large companies.

The trend held in the private space, too, where 339 large companies accounted for 75% of the segment pie.

CSR spend as % of profit	Private companies (1,190)			PSUs (56)		
	Small	Medium	Large	Small	Medium	Large
Less than 2%	320	145	179	7	1	17
Between 2% and 2.99%	180	98	128	4	1	13
3% and above	74	34	32	1	2	10
Total number of companies	574	277	339	12	4	40

CSR spend as % of profit	Private companies (Rs crore) Total Rs 7,519 crore			PSUs (Rs crore) Total Rs 2,480 crore		
Less than 2%	732	184	2221	139	1	521
Between 2% and 2.99%	612	130	2911	8	10	1159
3% and above	67	169	493	32	28	584
Grand Total	1410	483	5626	179	38	2264

Energy companies hog lion's share...

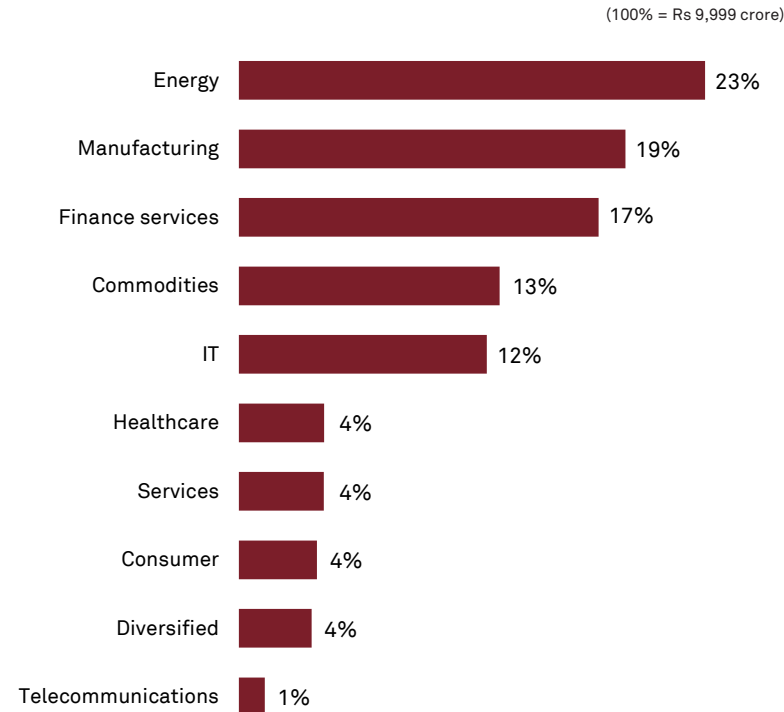
CSR spend of energy companies was the highest among sectors, with 51 companies spending Rs 2,253 crore, or 23% of the pie.

Manufacturing was the largest sector with 404 companies, but spent Rs 1,868 crore, accounting for 19% of the pie.

Financial services, with 126 companies, was the third-largest spender and accounted for 17% at Rs 1,738 crore.

Next up was IT, where 54 companies spent Rs 1,198 crore, accounting for 12%.

CSR spending by sector



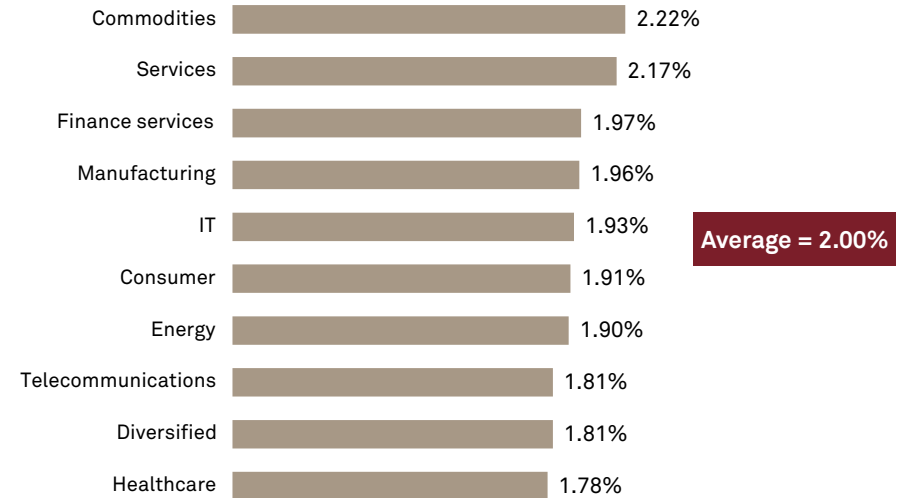
...but commodities tops in proportion of profits

Commodity companies spent the highest proportion of their profits on CSR, at 2.22%, closely followed by services peers with 2.17%.

Among others, financial services, manufacturing, IT, consumer, and energy spent 1.9% or more.

Healthcare brought up the rear with 1.78%, while diversified and telecommunications were marginally better at 1.81% each.

Average CSR spent as a % of profit



Few surprises among states

The top 10 states (based on number of companies with registered offices in each) accounted for 96% of total CSR spent.

Like earlier years, Maharashtra led with 46.9% share, followed by NCT of Delhi with 19.9%.

States	FY17				FY18			
	Number of companies	Total amount spent	Less than 2% on CSR	2% or more on CSR	Number of companies	Total amount spent	Less than 2% on CSR	2% or more on CSR
Maharashtra	391	3856	43%	57%	403	4688	35%	65%
NCT of Delhi	139	1843	44%	56%	146	1906	40%	60%
Gujarat	126	734	38%	62%	120	736	37%	63%
Tamil Nadu	106	269	42%	58%	115	340	41%	59%
West Bengal	94	558	39%	61%	92	486	28%	72%
Telangana	57	314	47%	53%	63	337	46%	54%
Karnataka	62	653	56%	44%	60	774	40%	60%
Rajasthan	34	120	41%	59%	38	170	42%	58%
Haryana	31	144	39%	61%	34	120	32%	68%
Uttar Pradesh	29	33	55%	45%	33	44	33%	67%
Rest of India	117	389	44%	56%	142	399	42%	58%

More than half of the companies in all states spent 2% or more on CSR as percentage of profit.

Average CSR spend by company was the highest in NCT of Delhi, closely followed by Karnataka and Maharashtra.

In terms of proportion of companies by state, there was no major change from last year.

In terms of growth in the quantum of CSR spending, however, Tamil Nadu saw a whopping 26% increase, followed by Maharashtra with 22% and Karnataka with 19%.

Most companies prefer implementing agencies

Around 74% of all companies used implementing agencies such as non-governmental/ voluntary organisations (NGOs/VOs) for their CSR projects. The proportion was unchanged from the previous fiscal.

The third-party matrix

Net sales (Rs crore)	Number of companies	Implementing agencies used
Small	586	70%
Medium	281	71%
Large	379	79%

The usage was predictably high for large companies, with the proportion as high as 83% for those with sales of Rs 10,000 crore or more.

Interestingly, small companies also increasingly preferred implementing agencies. Of the ones in this bracket that spent 2% or more on CSR, 70% used such partners compared with 67% the previous fiscal.

Annexure

Where the monies are put

Activity	2015		2016		2017		2018	
	Actual spend	Share of total	Actual spend	Share of total	Actual spend	Share of total	Actual spend	Share of total
Education & skill development	2,250	33%	2,686	32%	3,261	37%	3,502	35%
Healthcare & sanitation	1,875	27%	2,614	31%	2,263	25%	2,355	24%
Rural development project	892	13%	1,123	13%	1,153	13%	1,164	12%
Environment	623	9%	564	7%	906	10%	1,008	10%
National heritage protection	120	2%	127	2%	204	2%	342	3%
Empowerment	140	2%	269	3%	276	3%	238	2%
Promotion of sports	89	1%	78	1%	162	2%	191	2%
Relief funds	216	3%	494	6%	35	0%	71	1%
Funds for technology development	15	0%	128	2%	4	0%	29	0%
Benefits for armed force veterans & families	15	0%	4	0%	34	0%	16	0%
Slum area development	0	0%	5	0%	8	0%	11	0%
Others*	606	9%	258	3%	608	7%	1,073	11%
Total	6,841	100%	8,349	100%	8,913	100%	9,999	100%

*Others includes amounts that are not segregated under defined activities

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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

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