

# Study of CSR Activities of leading listed companies and their compliance with Section 135 of The Companies Act, 2013

Yashi Khare Pamecha, Adjunct faculty, Department of Commerce (Professional Studies)  
Christ University, Bangalore, 560029

**Abstract:** India is the first country in the world to mandate corporate social responsibility (CSR) through a legal provision. Section 135 of the Companies Act, 2013 requires the prescribed class of companies in India to constitute a CSR committee and spend at least 2% of average net profits of the company made during the preceding three years towards CSR activities. To comply with this provision, only activities listed in Schedule VII of the Companies Act, 2013 must be undertaken for prescribed CSR spends.

This study aims to assess the amount of expenditure companies incur on CSR initiatives, the percentage of net profits spent towards CSR and the different CSR activities undertaken by companies. For this, cases of ten listed companies with large market capitalization in India have been studied. The study reveals that companies are making significant efforts to contribute towards CSR by way of adopting villages, encouraging hygiene and sanitation, preserving heritage, enhancing livelihoods, conserving wildlife and uplifting the underprivileged.

**Keywords:** Companies Act, Schedule VII, Average Net Profit, CSR

## Introduction

The mandatory provision of CSR in Companies Act, 2013 aims to make corporates socially responsible. Government, with inclusion of Sec.135 of the Companies Act, 2013 is trying to instill in companies a sense of accountability and care towards the society. Through the disclose-or-explain mandate, companies in India must now disclose, on their official website, the details of their CSR initiatives.

The practice of CSR in India remains within the philanthropic space but has moved from building educational institutions and promoting culture to more fundamental issues like safe drinking water, hygiene, empowering women in rural India, environment sustainability and healthcare.

It is crucial to note that no upper limit has been specified to make CSR expenditure and that the CSR programs undertaken outside India or for the benefit of employees within the company is out of the ambit of the aforesaid provision.

## Literature Review

### Section 135, Companies Act, 2013 - Corporate Social Responsibility

(1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

(2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall,—

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall,—

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it

where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its

report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

*Explanation.*—For the purposes of this section “average net profit” shall be calculated in accordance with the provisions of section 198.

### ACTIVITIES COVERED IN SCHEDULE VII OF THE COMPANIES ACT 2013

- (i) eradicating hunger, poverty and malnutrition; promoting healthcare including preventive health care and sanitation including contribution to the ‘Swachh Bharat Kosh’ set - up by the Central Government for the promotion of sanitation and making available safe drinking water;
- (ii) Promoting education, including special education and employment enhancing vocational skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;
- (iii) promoting gender equality and empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centers and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- (iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the ‘Clean Ganga Fund’ set - up by the Central Government for rejuvenation of river Ganga;
- (v) Protection of national heritage, art and culture including restoration of building and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
- (vi) measures for the benefit of armed forces veterans, war widows and their dependents;
- (vii) training to promote rural sports, nationally recognized sports, paralympic sports and Olympic sports;
- (viii) contribution to the Prime Minister’s National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
- (ix) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
- (x) Rural development projects.
- (xi) Slum area development.

#### Statement of the Problem

Schedule VII of the Companies Act, 2013 provides types of activities which can be undertaken to comply with section 135 of Companies Act, 2013. But whether top listed companies in India by market capitalization follow CSR compliance? If yes, what are the activities they undertake and what percentage of their net profits do they spend to comply with such statutory requirement? If no, do companies disclose in their annual reports, the reasons of not spending prescribed amount towards CSR activities.

#### Objectives

1. To analyze percentage of average net profits spent towards CSR activities by select listed companies in India.
2. To understand the different CSR activities mentioned in Schedule VII of Companies Act and compare it with the actual data of companies to check for compliance.

#### Research Methodology

This paper is developed by studying Section 135 of Companies Act, 2013 read with Schedule VII. Also, the study of publicly available financials of leading public companies, whose shares are listed on the NSE. Further information was obtained through in-person interviews of a few leading Chartered Accountants engaged in auditing financial information of businesses in India. A deeper understanding of the compliance of the section of Companies Act, 2013 was obtained after a discussion with a lawyer and a Solicitor practicing in Mumbai. Schedule VII of Companies Act, 2013 available on the Ministry of Corporate Affairs portal has been extensively analyzed.

#### Case Study

For the case study, let us consider the case of ten large market capital companies in India and understand their quantum of CSR expenditure, amount unspent and the composition of the CSR committee with respect to Companies Act, 2013.

in INR Crore

Company	PAT <sup>1</sup>	Required CSR Spend <sup>2</sup>	Amt spent	Amt unspent	% of PAT	# of CSR Committee Members
HUL	5,610	112	116	-	2.1%	6
ITC	14,523	290	291	-	2.0%	6
M&M	4,064	81	81	-	2.0%	5
Sun Pharma <sup>3</sup>	-	-	3	-	-	3
RIL	35,150	703	745	-	2.1%	4
ONGC	24,352	487	503	-	2.1%	6
Maruti Suzuki	6,042	121	126	-	2.1%	3
HDFC	18,246	365	375	-	2.1%	6
TCS	24,868	497	400	97	1.6%	4
Safari	11	0	0	-	2.3%	3

Notes:

1. Average Profit for last three years in accordance with sec 198 of Companies Act., 2013.
2. 2% of Average Net Profit of last three financial years.
3. Sun Pharma - average net profits for the last 3 financial years was negative.

### Findings

The study reveals that the 10 companies selected for the case study have meticulously followed the 2% spend threshold as required under the Companies Act, 2013. In case, the company could not meet the criteria, it has disclosed the reasons of its not spending in the Board's report. For instance, TCS could not meet the mandatory spend norm so it disclosed its reasons for not spending the prescribed amount in its Board's Report. In another instance, Sun Pharma Ltd. which was not required to spend for CSR, (due to its negative profits), spent above the prescribed minimum. All the companies have constituted a CSR committee and have a CSR policy in place. The companies have conformed to the disclosure requirements, about CSR in their annual reports and their websites. Further, the CSR expenditure has been done in the activities specified in Schedule VII of The Companies Act, 2013. The percentage of CSR spends over and under the statutory limit by the 10 diverse companies under the study is demonstrated as follows:

CSR spend by company as % of Net Profit

Over 2%	2%	Under 2%
HUL	ITC	TCS
RIL	Mahindra & Mahindra	
ONGC		
Maruti Suzuki		
HDFC		
Safari		
Sun Pharma		

### Summary & Conclusion

The study begins with introducing the new legislation for CSR in India. Cases of ten publicly listed companies in India has been considered for this study. The paper discusses the average net profit earned by companies, quantum of expenditure made by each company for CSR related activities and the amount that remained unspent for the same. This study also checked whether the companies which could not spend prescribed amount have disclosed their reasons for the same. Further, this study verifies whether the CSR activities pursued by the stated companies conform with Schedule VII of the Companies Act, 2013. On examining the cases of select listed companies, it is seen that the companies have complied with the provisions of Sec. 135 of The Companies Act as well as with requirements of Schedule VII of The Act. Also, in the event of not spending the prescribed minimum, the companies have disclosed its reasons for the breach thereof.

It is noteworthy that the response of companies towards welcoming the newly inserted provision of CSR is overwhelming. With a CSR spend of INR 745 crore, Reliance Industries Limited has proved to be a major funder of CSR initiatives in India. Also, the CSR expense of Sun Pharma Limited deserves a mention, as despite suffering negative profits, its contribution towards healthcare and education as part of their CSR policy was above the statutory minimum.

The companies under the study have contributed in matters ranging from conservation of national monuments to offering scholarships to lesser privileged candidates, rehabilitation and relief efforts for disaster hit areas, construction of individual household toilets, installing tube wells, enhancing livelihoods of farmers and fishermen, building homes for the abandoned and differently-abled children, animal welfare and sports development to name a few.

Based on the analysis it is fair to conclude that companies in India are undertaking their CSR initiatives diligently and are contributing towards betterment of the society in a commendable way.

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