India's CSR reporting survey 2015

December 2015

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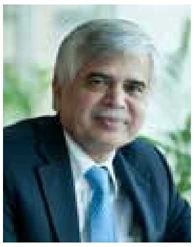
Foreword

As Indian corporates are constantly striving to be more efficient in the competitive global business scenario, they need to become equally proactive, accountable and socially receptive to their immediate environments. It becomes even more pertinent when India is emerging as a strong brand valued at US$2.14 trillion, the seventh-most valuable nation brand in the world, according to London-based intangible asset valuation consultancy, Brand Finance.

Dispersing a percentage of the accruing benefits to the millions of people who are in need of food, healthcare, education and growth is only a part of Corporate Social Responsibility (CSR). In light of the many developments in the recent past, and the rising emphasis on disclosure of business impacts on society and environment, we need to think on a broader perspective. We need to question if our offices are 'green' enough? Are we operating and imbibing a change from within and trying to come closer to becoming carbon positive? Are we truly making a difference by including the concerns of our society/country/world? Are we adopting effective approaches at work? These questions need to be addressed by devising a holistic CSR approach, organised annual CSR spending plans and by motivating all the stakeholders involved in the business. Broadening the scope of CSR's horizon beyond an organisation's operations would entail all that and more.

In this context, the results of KPMG's India CSR Reporting Survey 2015 on corporate citizenship reveal that out of the total 100 companies, most companies have come up with an annual report in compliance with the Companies Act, 2013 and the CSR Rules, and many with an annual report on CSR in the prescribed format, which showcases a focussed approach. India Inc., ideally, needs to pledge to go beyond the existing boundaries of CSR programmes and reach out to the society and country at large. As an optimist, I would believe this is just a beginning for all of us.

I welcome you to explore this report and hope it kindles new insights on the future of corporate social responsibility.



Richard Rekhy
CEO,
KPMG in India

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Key findings

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The Ministry of Corporate Affairs enforced the Companies Act, 2013 (Act) and the CSR Rules from 1 April 2014. Companies with a net worth of INR500 crore or more, or a turnover of INR1,000 crore or more, or a net profit of INR5 crore of more in a given fiscal year are required to comply with the provisions of the Companies Act, 2013 and the CSR rules.

This report analysis the top hundred listed companies as per market capital (N100). All N100 companies fall within the ambit of this definition and need to have at least the CSR committee in place; a CSR policy should be available in the public domain and an annual report on CSR in the Directors' report.

As on 30 September 2015, of the N100 companies analysed, the following documents have been captured from the public domain in 'India's CSR reporting survey 2015'

Documents reviewed	Number of companies
CSR policy available in the public domain	95 companies
Annual reports	92 companies
CSR disclosure in annual reports in the prescribed format	87 companies

CSR policy:

The Act mandates companies to have a CSR policy, which is easily accessible to individuals outside the organisation as well. Also, it should contain details regarding programmes/ projects undertaken in line with schedule VII, mode of implementation, monitoring framework and treatment of surplus.

- **Compliance:** Of the N100 companies, 5 per cent companies do not have a CSR policy in the public domain. In addition, 42 per cent companies have not reported on one or more of the details (as mentioned above) required to be covered as per the Act. Interestingly, (34 per cent) companies are silent on treatment of surplus.
- **Beyond compliance:** While 95 per cent companies have a CSR vision/mission/philosophy behind their CSR initiatives in their CSR policy, 80 per cent companies have given details of governance structure in their CSR policy.

CSR committee:

The Act mandates companies to have a CSR committee, details of which are to be disclosed in the Directors' report.

- **Compliance:** Only 53 per cent companies have given details regarding their CSR committee in the Directors' report.
- **Beyond compliance:** The number of members within the CSR committee varies between three to nine. Only 24 per cent companies have conducted four or more CSR committee meetings during the year, i.e. an average of one in each quarter.

Disclosure on CSR in the Directors' report:

The Act requires the board of directors' to disclose the contents of their CSR policy, developed and implemented by the company during the year in its report.

- **Compliance:** Seven per cent companies have not given any details regarding CSR in their Directors' report and 49 companies (more than 50 per cent) do not refer to the CSR policy in their report.
- **Beyond compliance:** While 90 per cent companies have a stand-alone section on CSR, 49 per cent companies have given details regarding their CSR vision/mission/ philosophy. Many companies have detailed CSR disclosure included into the Directors' report. While 34 per cent companies have given details regarding amount spent on CSR, 58 per cent companies have given details regarding CSR areas of intervention; 21 per cent companies have given details regarding outreach/people impacted through their CSR interventions.

Reasons for not spending the prescribed 2 per cent on CSR:

As per the Act and CSR Rules, companies failing to spend the prescribed 2 per cent (of the average net profit of the last three financial years as per Section 198) towards CSR, need to specify the reasons for not spending the amount in its report.

- **Compliance:** Among the companies surveyed, 84 fell under the purview of mandatorily spending 2 per cent on CSR, out of which 52 have spent less than the prescribed per cent and one has failed to give an explanation for the same.
- **Beyond compliance:** 25 per cent companies who have failed to spend the prescribed 2 per cent have gone ahead and committed to carry forward the unspent CSR amount to the next year.

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Responsibility statement of the CSR committee:

The annexure in the CSR Rules, mandates a responsibility statement of the CSR committee that the implementation and monitoring of the CSR policy is in compliance with the CSR objectives and policy of the company.

- **Compliance:** A majority (97 per cent) companies that has an annual report on CSR in the prescribed format has given a responsibility statement.
- **Beyond compliance:** Twelve per cent companies have given detailed CSR committee responsibility statement and did not limit it to just a sentence statement.

CSR spending by companies:

Of the 92 companies reviewed, 87 have the CSR disclosures in prescribed format as part of their annual report. A majority (91 per cent) of the 87 companies were required to spend the prescribed 2 per cent towards CSR, which totals to INR6,490 crore, of which INR5,115 crore was spent. Health and sanitation is the priority sector for spending (26 per cent), followed by education (24 per cent).

Of the 87 companies, only 38 per cent have spent 2 per cent or more towards CSR; 62 per cent companies have spent less than the prescribed amount, of which 30 per cent companies have spent less than a per cent, and one company has reported a spend of 'NIL' during the year. Thirteen companies have carried forward the unutilised amount, as disclosed in their CSR annual report.

About 75 per cent of the companies have not given details regarding direct spends and overhead expenditure towards CSR projects.

The CSR budget outlay (amount to be spent) is higher in case of 12 per cent companies than the prescribed 2 per cent amount. Three per cent companies that do not have an obligation to spend based on the calculations as per Section 198 of the Act, are spending towards CSR.

Only 6 of 20 PSU companies and 29 of the 69 non-PSU companies have spent 2 per cent or more towards CSR. Only 34 of 72 Indian origin companies and 4 of 17 non-Indian origin companies have spent 2 per cent or more towards CSR. This excludes 3 companies who were not required to spend 2 per cent towards CSR.

CSR project management:

Fourteen per cent companies have reported an exclusive direct implementation, 7 per cent through their Foundation and 15 per cent through support of external implementing agencies, and the rest have implemented the projects through combination of direct execution and/or in collaboration with their own Foundation and/or with support of external implementing agencies.

Health, sanitation and education receive highest focus. Schedule VII activities such as contribution to technology incubators, slum development and training to promote rural sports received least interest in terms of number of projects undertaken by companies as well as amount spent on the activities.

Of the CSR projects undertaken by N100 companies, Maharashtra has the highest number, followed by Karnataka, West Bengal, Tamil Nadu, Gujarat and Uttar Pradesh. Whereas, Lakshadweep, Andaman and Nicobar islands, Dadra and Nagar Haveli, Puducherry, Chandigarh and North-Eastern states have received least attention in terms of number of projects.

Comparison of spending by type of company and nature of industry:

BFSI, FMCG, energy, pharmaceuticals, mining and metal industries account for 68 per cent share of the N100 companies.

The energy sector accounts for the highest spend (39 per cent) followed by BFSI (13 per cent), IT (13 per cent), mining and metals (11 per cent), and consumer goods (9 per cent). This is to the tune of 85 per cent of the total spend by N100 companies.

Chemical and industrial manufacturing are the only industries that match the prescribed 2 per cent spend towards CSR. The telecom industry has spent only 18 per cent of its prescribed spend.

While PSUs have spent only 71 per cent of the prescribed 2 per cent, non-PSUs have spent 83 per cent. Interestingly, it is the Indian origin companies that have spent more (89 per cent) than non-Indian origin companies (57 per cent).

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1 About the survey

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Governance frameworks that focus on the social, environmental and ethical responsibilities of businesses help in ensuring long-term success, competitiveness and sustainability. This further helps to endorse the view that businesses are an integral part of the society and are essential to the development and sustenance of the society at large.

There has been an influx of funding by the corporates in India to aid and uplift the Indian society for many decades. Philanthropic contributions by companies were voluntary and not a regulatory requirement for all. The fifty-seventh standing committee on finance highlighted the need for companies to contribute to the society as they depend on the society for obtaining the capital for their businesses[1].

As a result, The Ministry of Corporate Affairs enforced the Act and the CSR Rules from 1 April 2014. The provision of Section 135 for CSR in the Act was introduced in order to enable companies to build social capital through a regulatory structure. By doing so, India became the first country to have a legal requirement to spend on CSR and also the first to empower businesses to make an impact on the social front in a structured manner[2].

1.1 Introduction

As per the Act, companies with a net worth of INR500 crore or more, or a turnover of INR1,000 crore or more, or a net profit of INR5 crore in a given fiscal year shall constitute to have a CSR committee. Additionally, companies are required to adhere to a set of criteria including:

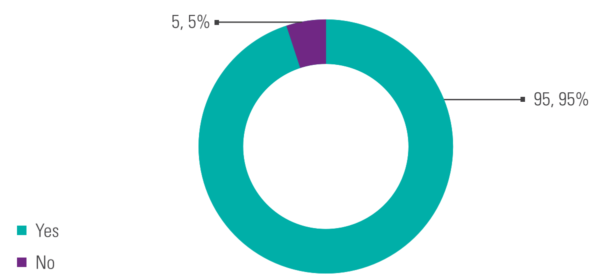
- Formulating a well-defined CSR policy
- Undertaking project in alignment with Schedule VII of the Act and the CSR Rules
- Monitoring CSR policy and projects
- Reporting details of the CSR activities in the annual report in accordance with the prescribed format.

The year 2014-15 is the first year of compliance for the Company's Act, 2013, and therein lies the significance of this survey. The focus of India's CSR reporting survey report 2015, is to analyse the compliance and practices of N100 companies with respect to the CSR policy and the reporting in the Directors' report/annual report of the companies. The report aims to bring out key takeaways for various stakeholders – corporates, government, not-for-profit organisations, academic institutions and others. The findings can serve as a reference line for the new era of the nation's CSR landscape.

1.2 Availability of information

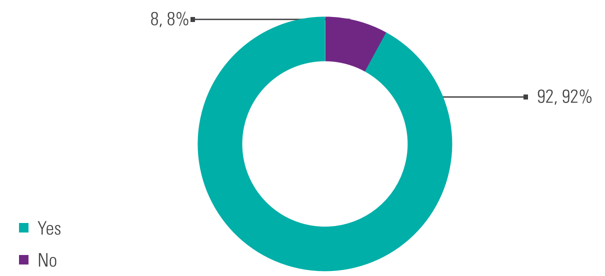
As of 30 September 2015, we were able to access CSR policies of 95 companies and annual report of 92 companies. Eight companies of the N100 list follow a different cycle of annual report (not April-March) and, thus, are not covered in this survey. The annual report of 5 companies did not have the required information on CSR. Thus the analysis of CSR policies is for 95 companies and that of CSR spend is for 87 companies.

Availability of CSR policy on company website



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Availability of annual reports of N100 companies as on 30 September 2015



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

1. The Companies Bill - fifty seventh report, 2012, standing committee on finance (2011-12), lok sabha secretariat.
2. Reference note, 2013, Lok Sabha Secretariat, Parliamentary Library and Reference, Research, Documentation and Information Service (LARRDIS), Number 11/RN/Ref./2013

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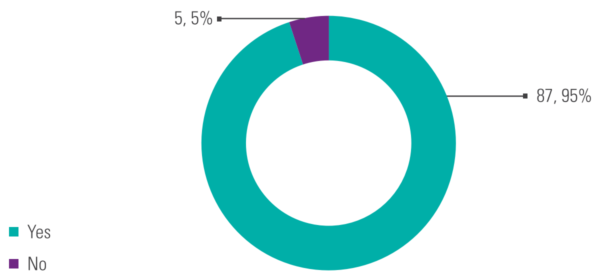
Companies preparing an annual report on CSR as per the format recommended/prescribed in Section 135, of the Companies Act/CSR Rules



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

1.3 Methodology

This publication analyses the CSR policy, board of directors' annual report on CSR, and CSR spends of N100 companies. The three main stages of research were:

1. The CSR policy and annual report for the year 2014-15 for the N100 companies were collated from the public domain.
2. The CSR policy was analysed for compliance with the Act and CSR Rules. The disclosure in the board of directors' CSR annual report was analysed for compliance with the Act and CSR Rules.
3. Quantitative attributes and qualitative trends were inferred and analysed as represented below:

Qualitative aspects	Quantitative aspects
• Vision/mission/philosophy • CSR policy • Annual report on CSR • Composition and terms of reference of CSR committee • Schedule VII focus areas • Mode of implementation • Reasons for unspent amount • Responsibility statement	• Average net profit • Prescribed CSR expenditure • Amount outlay, amount spent • Focus areas of spending • Location of spending • Amount unspent • Project expenditure, project overheads and administrative overheads

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1.4 Terminology

- The scope of CSR in this publication is limited to projects or programmes relating to activities undertaken by the board of directors' of a company (board) in pursuance of recommendations of the CSR committee of the board, as per the declared CSR policy of the company subject to the condition that such policy will cover subjects enumerated in Schedule VII of the Act.
- CSR committee refers to the committee set up by the board of the company as referred to in Section 135 of the Act.
- CSR policy relates to the activities to be undertaken by the company as specified in Schedule VII to the Act and the expenditure thereon, excluding activities undertaken in pursuance of normal course of business of a company
- Mode of implementation means that the implementation may be carried out either directly, or through its own Foundation or through an implementing agency, as defined in the CSR Rules. Implementing agency refers to any Trust, Society or Section 8 company (other than their own Foundation) that has a proven track record of three or more years in undertaking activities as defined in Schedule VII of the Act.
- Administrative overheads are expenses that are not attributable to any one specific project but are incurred to establish and strengthen a company's CSR governance structure for meeting regulatory compliance, including capacity building, employee volunteering cost, etc. These expenses are capped at 5 per cent of a company's total CSR spend.

Schedule VII refers to the activities which may be included by companies in their CSR policy activities related to:

Eradicating hunger, poverty and malnutrition, promoting healthcare, including preventive healthcare and sanitation, contributing to the 'Swach Bharat Kosh' set-up by the central government for the promotion of sanitation and making available safe drinking water.

Promoting education, including special education, and employment enhancing vocation skills, especially among children, women, elderly and the differently-abled, along with livelihood enhancement projects.

Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.

Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, 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 the river.

Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts.

Measures for the benefit of armed forces veteran, war widows and their dependents.

Training to promote rural sports, nationally recognised sports and Olympics.

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, scheduled tribes, other backward classes, minorities and women.

Contributions or funds provided to technology incubators located within academic institutions which are approved by the central government.

Rural development projects.

Slum area development.

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2 Reporting trends and analysis

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This section analyses the CSR governance, spending and project management. It further analyses and compares focus areas as well as spends by PSU and non-PSU companies, and Indian origin and non-Indian origin companies.

2.1 Governance

Increased emphasis of governance has been a key feature of the Companies Act, 2013 and this applies to the Section 134 of the Act as well.

This section analyses the details related to the CSR policy, CSR committee, disclosure on CSR in the directors' report, reasons for not spending, and responsibility statement of N100 companies.

2.1.1 CSR policy

As per the Act, companies with a net worth of INR500 crore or more, or a turnover of INR1,000 crore or more, or a net profit of INR5 crore or more in a given fiscal year shall constitute a CSR committee. All N100 companies surveyed, fall within the ambit of this definition and need to have a CSR policy in place and have to display the same on the company's website as well as in the annual report.

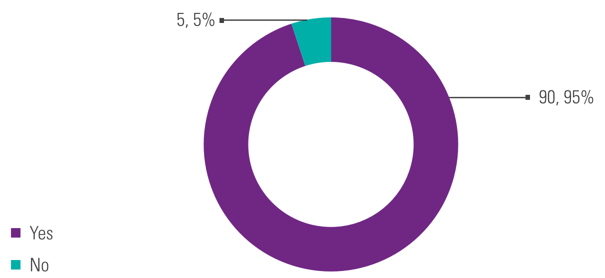
Ninety-five of the N100 companies have a CSR policy in public domain as on 30 September 2015.

This section attempts to analyse the availability of the CSR policy in the public domain of which 95 companies had their policy readily available on their company's website, while for the remaining five companies it was not traceable.

A majority of companies (around 90 out of 95) describe their vision/mission or philosophy behind their CSR initiatives, which according to us is a good practice, however, not a mandatory requirement as per the Act and the CSR Rules. This is a clear indication of the seriousness given to CSR.

Out of 95 companies, 13 have stated that they would carry out activities aligned to Schedule VII, but have not selected any specific area for intervention, while 79 of them have. However, three of them lack details on areas of intervention in the CSR policy. The reason for the majority identifying multiple areas of intervention can be seen as a de-risking factor.

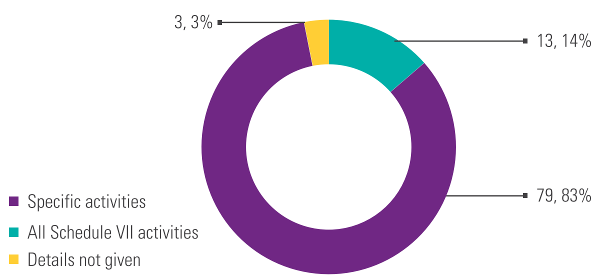
Availability of vision/mission/philosophy in CSR policy



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

A majority of companies (around 85 out of 95) have opted for implementing projects directly as well as with support of implementation agencies.

Areas of interventions covered in the CSR policy



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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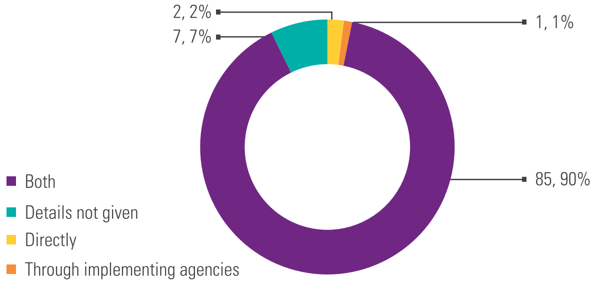
Interestingly, 2 per cent of them have opted for implementing the projects exclusively on their own, whereas, 1 per cent has opted the route of implementing the project through implementing agencies. However, 7 companies have not given details on the mode of implementation. But this statistics looks different when the actual project management is analysed in section 2.3 of this report.

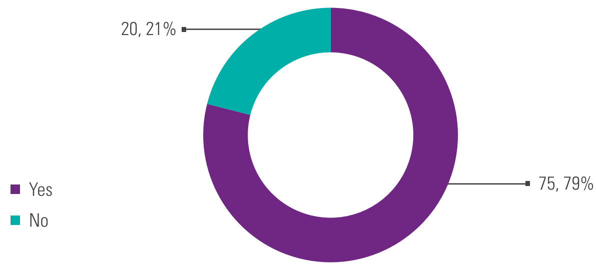
Mode of implementation, as described in the CSR policy



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Around 75 of the 95 companies have given details of their governance structure in the CSR policy, which includes details of the organisation's structure to implement and monitor the CSR activities.

Details of the governance structure in the CSR policy

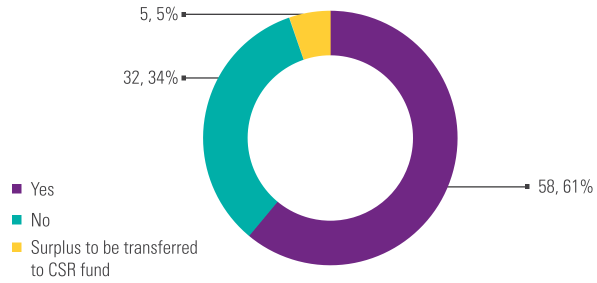


Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Around 63 out of 95 companies stated that the surplus arising out of CSR activities is not expected to form part of the business profits of the company. However, 32 of them remained silent.

Of these 63 companies, five of them have gone ahead and stated that the profits arising out of CSR activities shall get transferred to CSR funds.

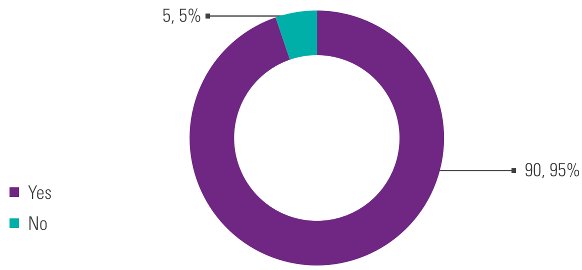
Treatment of surplus arising from CSR activities



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

A majority of companies (90 out of 95) have defined a framework to monitor activities in their CSR policy. It is the mandate of the CSR committee to institute a transparent monitoring mechanism for implementation of CSR projects and programmes.

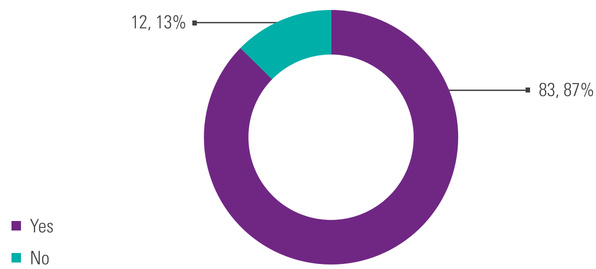
Details of monitoring framework in the CSR policy



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Around 83 of the 95 companies have stated the composition of the CSR committee in their CSR policy. This is a good way to showcase the accountability on matters related to CSR.

Details of CSR committee in CSR policy



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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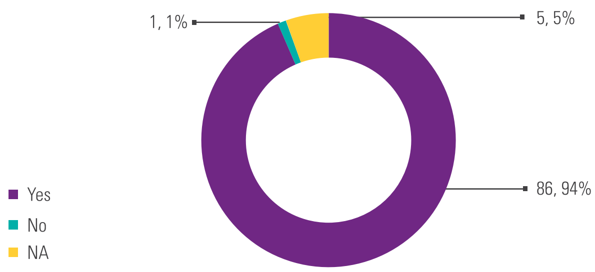
2.1.2 CSR committee

All N100 companies need to have a CSR committee in place. The is section on CSR committee aims to analyse the 92 companies who have their Annual Report readily available on their company's website, out of these, 87 companies have their CSR annual reports in the prescribed format.

Around 86 of the 92 companies have given details regarding disclosure on composition of the CSR committee in their CSR annual report. However, one of them has not disclosed the details of the CSR committee members and five of them do not have a CSR annual report as prescribed under the Act.

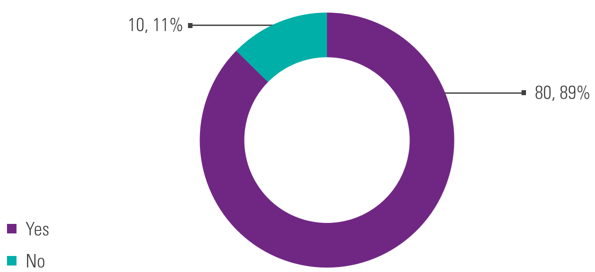
Companies disclosing composition of their CSR committee in their CSR annual reports



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

However, in the annual report, 90 of them have provided details regarding their CSR committee, of which 80 have a stand-alone CSR committee, whereas others have clubbed it with other board level committees.

Companies which have/with stand-alone CSR committee

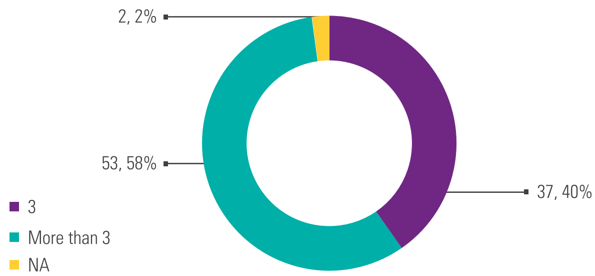


Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

A majority of companies (90 out of 92) have provided details related to number of members in the CSR committee in their annual report.

Of the 90 companies, 37 have a three member CSR committee, which is in line with the requirements of the Act and CSR Rules. Interestingly, 53 companies have four to nine members on their CSR committee.

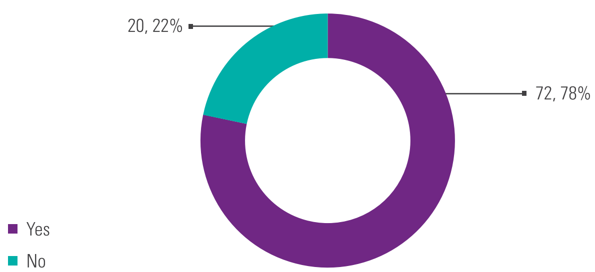
Number of members in the CSR committee



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Around 72 of the 92 companies have outlined the role of the CSR committee members which is a good practice and not a mandatory requirement as per the current Act and CSR Rules.

Companies that have outlined the role of the CSR committee in their annual report



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Around 77 out of the 92 companies have given details regarding number of CSR committee meetings held during the year.

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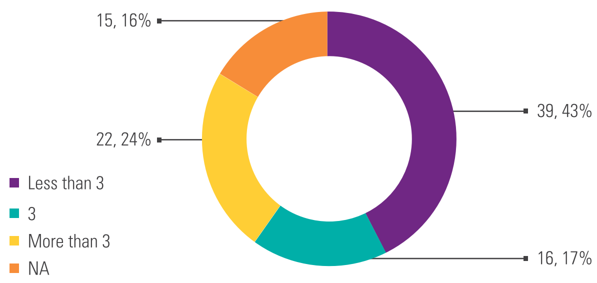
Only 22 companies had four or more CSR committee meetings during the year, i.e. an average of one in each quarter; 39 companies had only two or less.

The number of members in the committee or the number of meetings of the committee may not be a direct measure of the efficiency of implementation of CSR, but these disclosures are important from accountability and transparency perspectives.

Number of CSR committee meetings held in a year



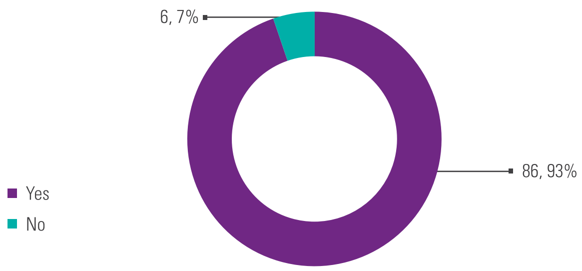
Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

2.1.3 Disclosure on CSR in the Directors' report

Since all the N100 companies surveyed qualify under one of the three screening criteria, they need to disclose their CSR spend in their annual reports.The inclusion on CSR as part of the Directors' report in the annual report can be taken as a measure of seriousness for the subject. Around 86 of the of the 92 companies have a separate section on CSR in the boards' report.

Further, 83 of these 86 have a stand-alone section on CSR in the annual report.

Disclosure on CSR in the Directors' report

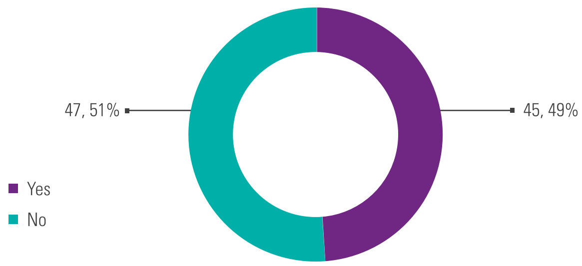


Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

All N100 companies have to disclose on CSR in their annual reports since all of them qualify under one of the three screening criteria. The inclusion on CSR as part of the Directors' report in the annual report can be taken as a measure of seriousness for the subject.

While 86 of the 92 companies have a separate section on CSR, 45 of the 92 companies have a vision/mission/ philosophy towards CSR which is a good practice and showcases the commitment towards CSR.

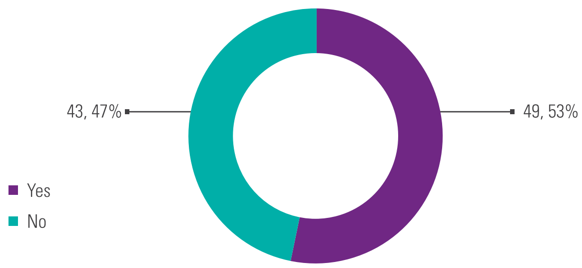
Companies which have a CSR vision/mission philosophy



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Over 53 per cent (49) of the 92 companies have given details regarding their CSR committee in the Directors' report.

Reference to CSR committee in the Directors' report



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Only 34 per cent (31) of the 92 companies have given details regarding amount spent on CSR in their the Directors' report. These are the companies that have spent 2 per cent on CSR.

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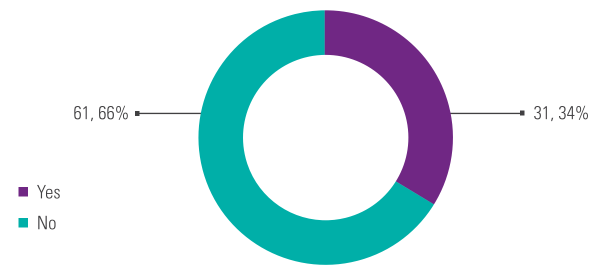
Details of amount spent on CSR in the Directors' report



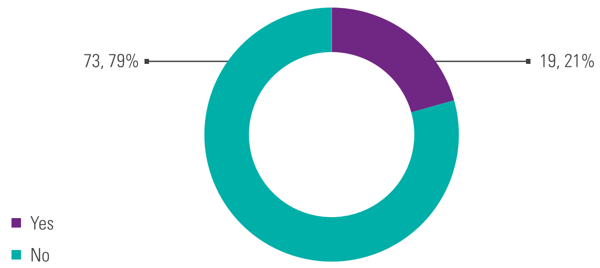
Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

While 53 of the 92 companies have given details regarding focus areas of CSR intervention in their Directors' report, only 19 of the 92 companies have given details regarding outreach/people impacted.

Details on focus areas of CSR intervention in the Directors' report

Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Details of outreach/people impacted in the Directors' report



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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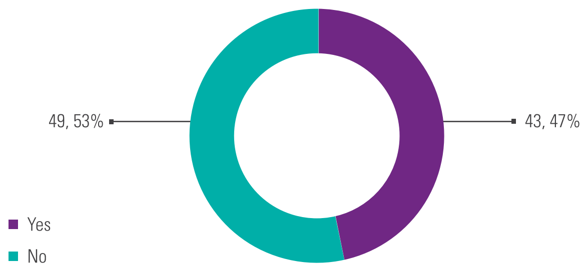
Only 43 (less than 50 per cent) companies have given reference and/or link to the CSR policy in their Directors' report.

Reference to CSR policy in the Directors' report



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

2.1.4 Reasons for not spending the prescribed 2 per cent on CSR

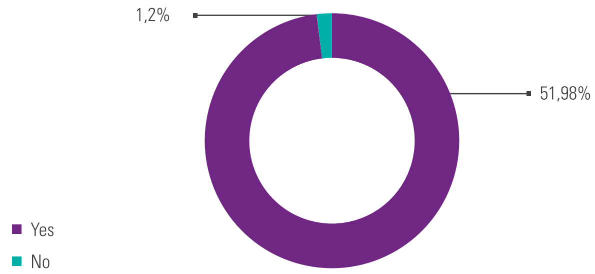
Companies which fail to spend 2 per cent towards CSR, under clause (o) of sub-section (3) of Section 134 of Act, the board needs to specify the reason for not spending the amount.

Around 92 of the N100 companies have released an annual report, of which 87 have an annual report on CSR in the prescribed format. Nearly 84 companies were required to spend the prescribed 2 per cent towards CSR based on the calculation as per Section 198 of the Act.

Around 52 of them have spent less than 2 per cent and are thus required to give an explanation for not spending the prescribed amount.

Of the 52 companies, 51 have given an explanation for not spending the prescribed amount.

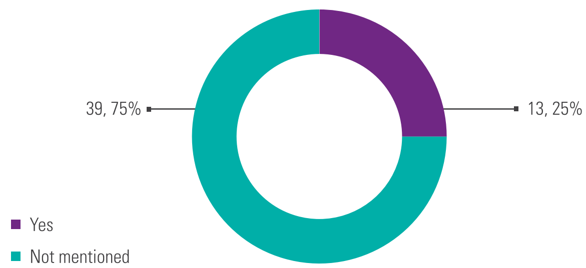
Explanation given by companies which have not spent the prescribed 2 per cent



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Nearly 13 (25 per cent) companies of the 52 who have failed to spend the prescribed amount have committed to carry forward the unspent CSR amount to the next year. There is no provision in the Companies Act or CSR Rules requiring companies to do so. Of the 13 companies committing to carry forward, five of them are PSUs. Hence, it can be seen that it is an influence of the Department of Public Enterprises (DPE) guidelines, which requires unutilised funds to be carried forward to the next year.

Companies that plan to carry forward unspent CSR amount to the next year



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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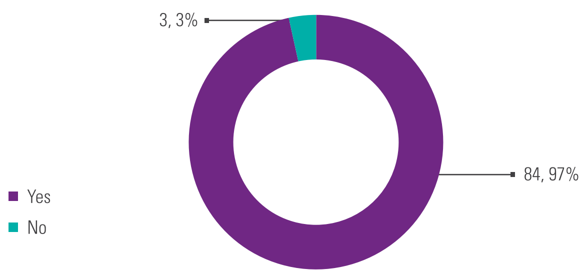
2.1.5 Responsibility statement of the CSR committee

All N100 companies need to give a responsibility statement of the CSR committee that the implementation and monitoring of CSR policy is in compliance with CSR objectives and policy of the company.

Eighty-four of the 87 companies that have an annual report on CSR in the prescribed format have given a responsibility statement.

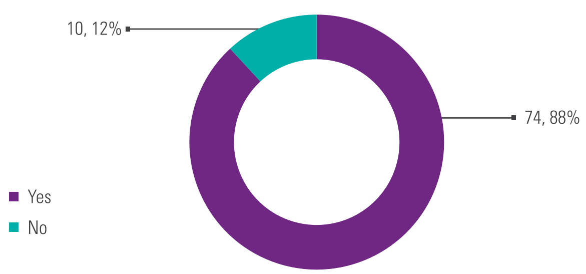
Responsibility statement given or not



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Only 10 of these 84 companies have gone beyond the compliance requirement and provided a detailed CSR committee responsibility statement.

Is the responsibility statement just a restatement or does it go beyond compliance requirements?



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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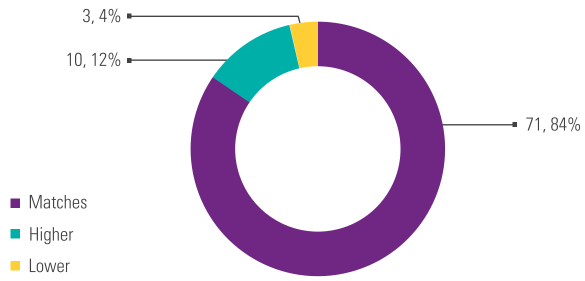
2.2 CSR spending by companies

Of the 92 companies reviewed, 87 have the CSR disclosures in prescribed format as part of their annual report; 84 companies were required to spend the prescribed 2 per cent towards CSR. Around 3 of these companies have a lower CSR budget outlay than the prescribed 2 per cent. Interestingly, it is higher in case of 10 companies. Equally interesting is to know that three companies that do not have an obligation to spend, based on the calculations as per Section 198 of the Act, are spending towards CSR.

Comparison of amount to be spent (CSR budget outlay) against prescribed CSR expenditure (2 per cent)



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

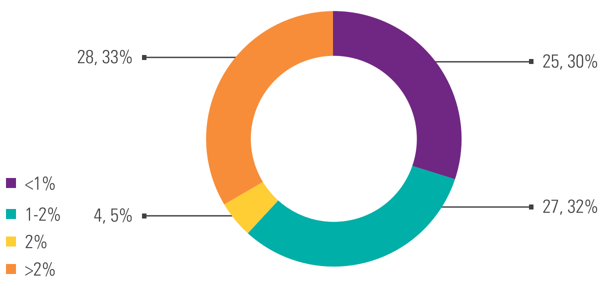
Only 32 (38 per cent) companies have spent 2 per cent or more towards CSR, of which 28 of them have spent more than the prescribed amount.

More than 60 per cent (52) companies have spent less than the prescribed 2 per cent, of which:

- Twenty-five companies have spent less than a per cent
- One company has reported a spend of 'NIL' during the year.

These companies were required to give reasons for not spending the prescribed 2 per cent on CSR activities, of which one did not provide a reason for not doing so.

Comparison of amount spent against the prescribed 2 per cent on CSR



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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As per the CSR annual reports of 87 companies, INR6,490 crore was the total outlay (prescribed 2 per cent amount) to be spent towards CSR, against which INR5,115 crore (79 per cent) was spent towards CSR. Being the first year of implementation, this can be looked at as a good scenario.

More than 50 per cent of spends on CSR (INR2,592 crore) are towards health, sanitation and education. [Schedule VII (i) activities, i.e. eradicating hunger, poverty and malnutrition, promoting preventive healthcare and sanitation and making available safe drinking water, and Schedule VII (ii) activities, i.e. promoting education, and livelihood enhancement projects]. The reason can be owing to the fact that these were sectors where companies were already working, even before the Act and Rule has come in place.

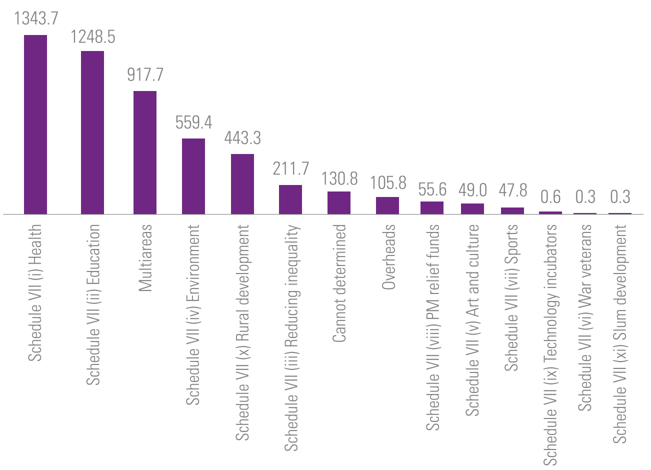
Thus, health and sanitation are the priority sector of spending (26 per cent) followed by education (24 per cent), environment (11 per cent), rural development (9 per cent) and women empowerment (4 per cent).

Areas like contribution for war veterans, technology incubators and slum development did not acquire much interest among the companies for their CSR activities. Interestingly, some of the activities undertaken by the companies could not be bucketed under any of the Schedule VII items and, hence, appear as, cannot be determined, in the chart above.

Schedule VII activities given below accounted for merely 3 per cent of the total spends (INR153 crore) and did not acquire much interest among the companies for their CSR activities, some of which are listed below:

- Protection of national heritage, art and culture, including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts
- Measures for the benefit of armed forces veterans, war widows and their dependents
- Training to promote rural sports, nationally recognised sports, paralympic sports and Olympics
- 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 caste, scheduled tribes, other backward classes, minorities and women

Sector-wise CSR spends by companies (in INR crore)



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

- Contributions or funds provided to technology incubators located within academic institutions which are approved by the central government
- Slum development

Activities to the tune of INR131 crore (3 per cent of the total spend) undertaken by the companies could not be categorised under any of the Schedule VII activities. Around 18 per cent of spends (INR918 crore) are towards multi sector projects i.e. combination of Schedule VII activities. Thus, activities to the tune of more than 20 per cent (INR1,049 crore) are not labelled under a specific Schedule VII activity.

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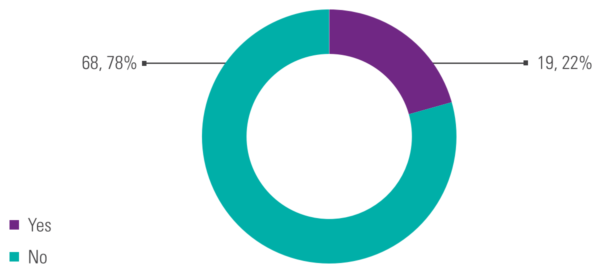
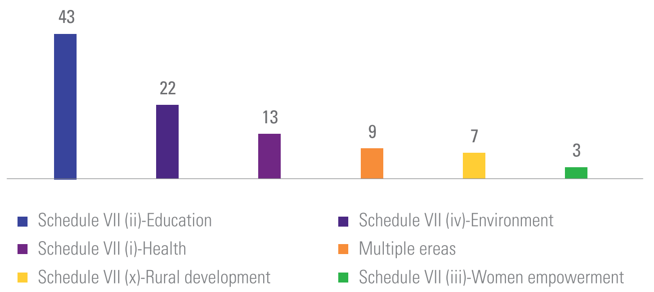
Companies reporting separately on direct and overhead expenses on projects



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Only 22 per cent (19) of the companies have given details regarding direct spends and overhead expenditure towards CSR projects. Although it is mandated through the prescribed format, this was one of the weak areas of implementation. One of the reasons could be lack of clear definition in the CSR Rules as to what qualifies as direct expense,overhead expense and administrative expenses.

Area-wise percentage of spends towards project overheads



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

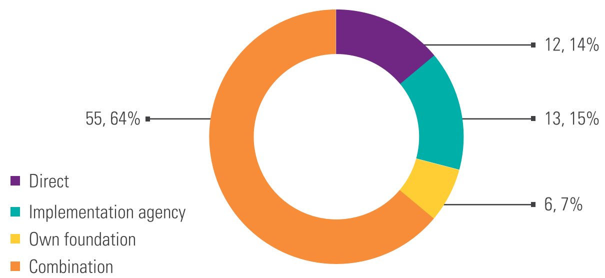
Of the 19 companies that have given details regarding direct spends and overhead expenditure towards CSR projects, education has the highest spend towards project overheads (43 per cent), followed by environment (22 per cent), health (13 per cent), rural development (7 per cent) and women empowerment (3 per cent). Projects that have multiple areas of intervention (combination of health, education, etc.) account for 9 per cent of project overheads against the actual spends.

The above data cannot be taken as any benchmark, since the sample size was only 19 companies. However, it is given that the overhead cost during the initial years of any project is likely to be higher and is expected to get stabilised over the years.

2.3 CSR project management

This section analyses the CSR project management related aspects of these companies.

Implementation modality of CSR programmes



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Of the 86 companies that have indicated CSR spends in their annual report:

- Exclusive direct implementation (CSR/HR and other departments) has been reported by 12.
- Only 23 companies have reported to have a Foundation, of which six companies have reported exclusive implementation through their own Foundation.
- Implementation with support of external implementation agencies has been reported by 13 companies.
- Of them, 55 have implemented projects through a combination of direct execution and/or in collaboration with their own Foundation and/or with support of external implementing agencies.

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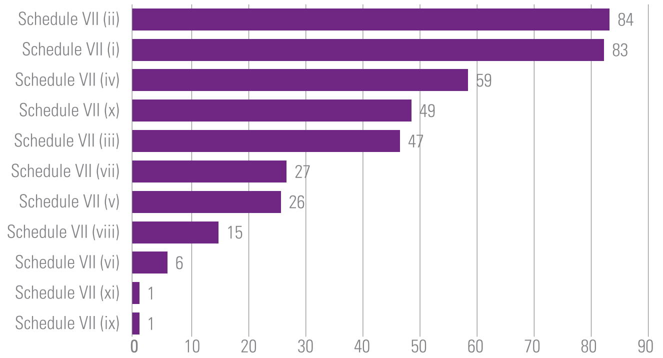
Number of companies focussing on sector/area of implementation



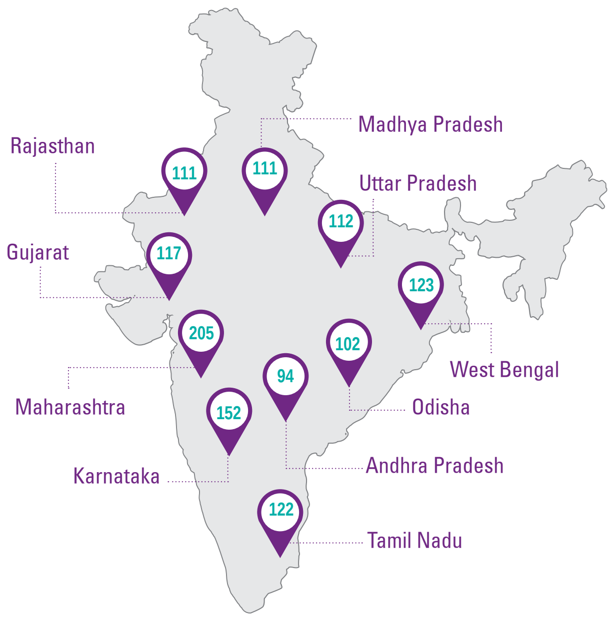
Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Education and health received the highest focus, followed by environment (59), rural development (49) and women empowerment (47).

Schedule VII activities such as contribution to technology incubators (1), slum development (1) and war veterans (6) have received the least interest both in terms of number of projects as well as from spending.

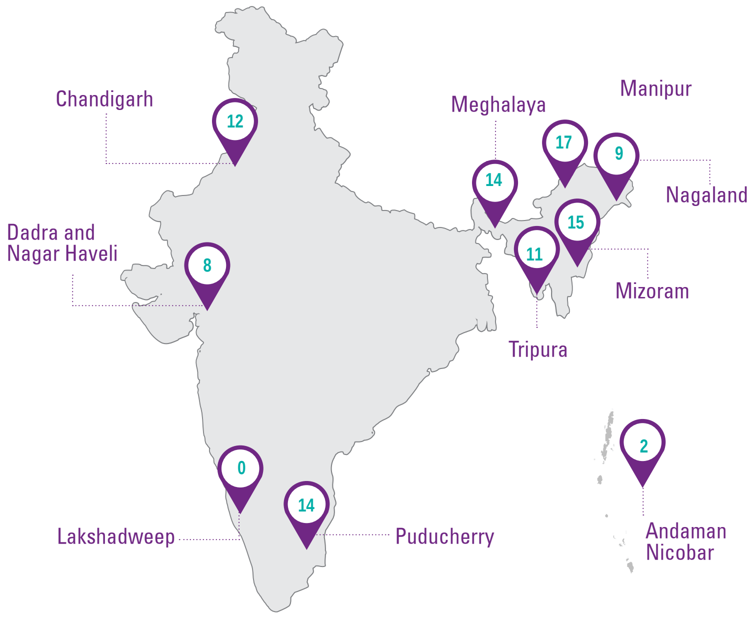
In order of concentration, Maharashtra has the highest number of projects, followed by Karnataka, West Bengal, Tamil Nadu, Gujarat and Uttar Pradesh. Whereas, Lakshadweep, Andaman Nicobar Islands, Dadra and Nagar Haveli, Puducherry, Chandigarh and North-Eastern states have received least attention in terms of number of CSR projects. This can be a reflection of the act requiring the companies to give preference to the local area and areas around it where it operates, for spending the amount earmarked for CSR activities. Since this analysis is for N100, most of them are located in the states where the CSR spend is higher.

Top ten states based on the number of projects



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Bottom ten states/Union Territories based on number of projects



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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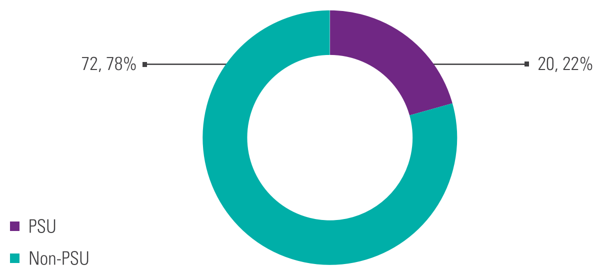
2.4 Comparison of spending by type of company and nature of industry

This section analyses the CSR spending by type of company (PSU and non-PSU, Indian origin) and non Indian origin and nature of industry.

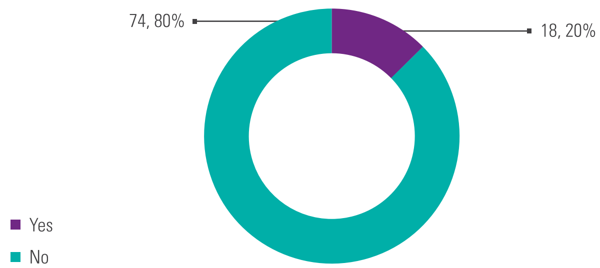
Of the 92 companies that have an annual report, 20 are PSUs and 18 are non-Indian origin companies.

Number of PSU and non-PSU companies



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

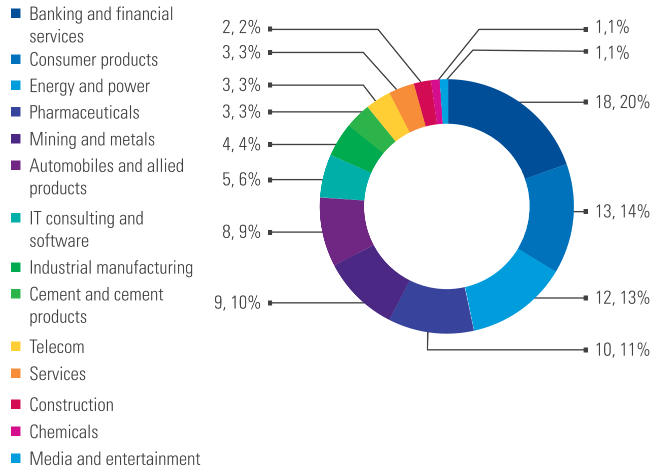
Number of Indian origin and non-Indian origin companies



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

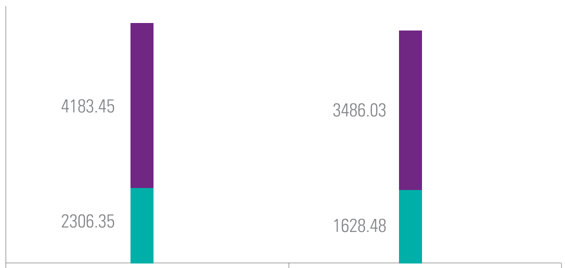
BFSI, Consumer products, energy, Pharmaceuticals, and Mining and metals account for 68 per cent share of the N100 companies. Media and entertainment, chemicals, construction, services and telecom account for only 10 per cent share of the N100 companies.

Number of companies based on the nature of the industry



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Comparison of spends by PSU and non-PSU companies (INR in crore)



	Prescribed CSR expenditure	Total amount spent
Non-PSU	4183.45	3486.03
PSU	2306.35	1628.48

Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Against the prescribed spends of INR6,490 crore, non-PSU companies had to spend INR4,183 crore, against which they have spent an amount to the tune of INR3,486 crore (83 per cent). However, against the prescribed amount of INR2,306 crore, PSUs had spent INR1,628 crore (71 per cent) only. This is an interesting observation because the PSUs started under the CSR regulatory regime much earlier with the Department of Public Enterprises guidelines.

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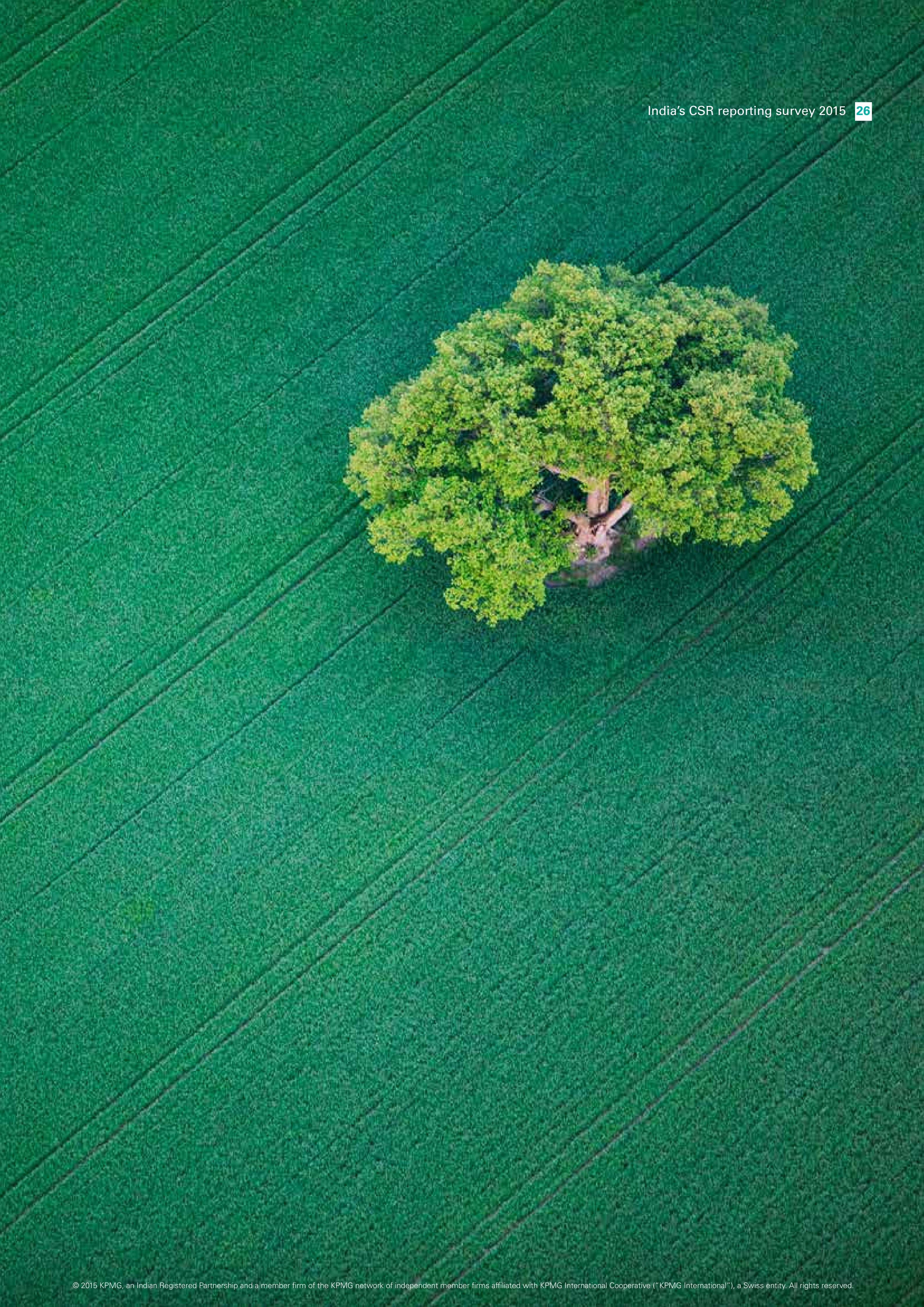

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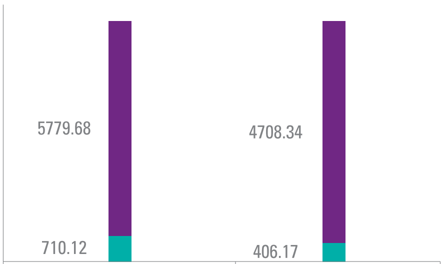
Comparison of CSR spends by Indian origin and non-Indian origin companies (INR in crore)



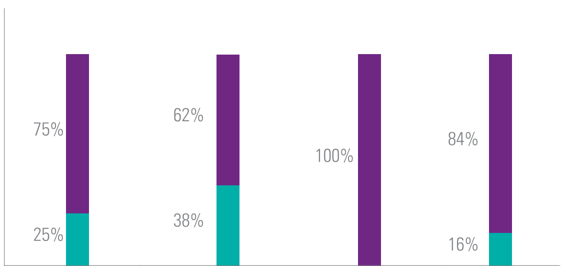
	Prescribed CSR expenditure	Total amount spent
Indian origin companies	5779.68	4708.34
Non-Indian origin companies	710.12	406.17

Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Only 6 of 20 PSU companies and 29 of 69 Non PSU Companies have spent 2 per cent or more towards CSR. Only 34 of 72 Indian origin companies and 4 of 17 non-Indian origin companies have spent 2 per cent or more towards CSR. This excludes three companies who were not required to spend 2 per cent towards CSR.

Against the prescribed spends of INR6,490 crore, Indian origin companies had to spend INR5,780 crore, of which they have spent an amount to the tune of INR4,708 crore (81 per cent). However, against the prescribed amount of INR710 crore, non-Indian origin companies had spent INR406 crore (57 per cent).

Mode of implementation by PSU and non-PSU companies

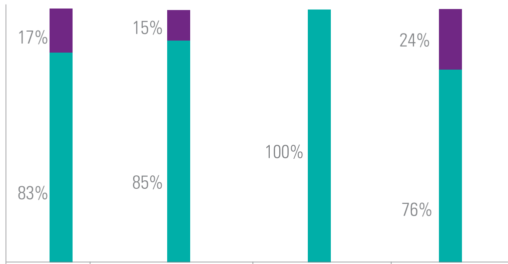


	Directly	Implementing agency	Own Foundation	Combination
Non-PSU	75%	62%	100%	84%
PSU	25%	38%	0%	16%

Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Only non-PSU/Indian origin companies have their CSR Foundation through which they have implemented their CSR projects. This is interesting since there is no restriction for a PSU or a foreign origin company do so.

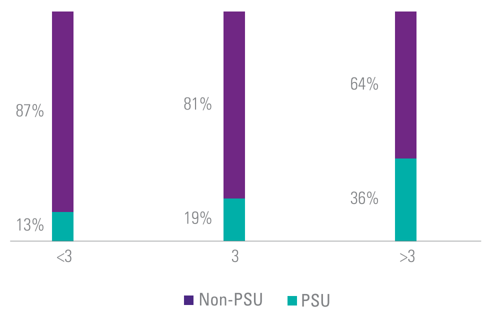
Mode of implementation by Indian origin and non-Indian origin companies



	Directly	Implementing agency	Own Foundation	Combination
Non-Indian origin	17%	15%	0%	24%
Indian origin	83%	85%	100%	76%

Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

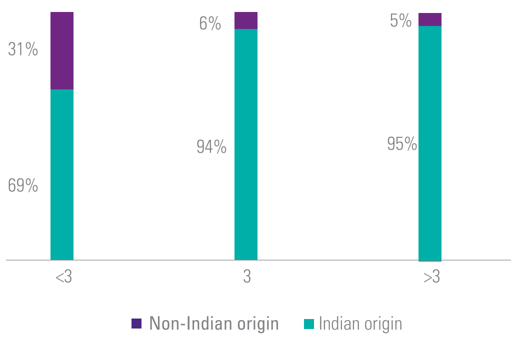
Number of CSR committee meetings PSU and non-PSU companies



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Only 11 of 20 PSU companies and 27 of 72 non-PSU companies; and similarly 36 of 72 Indian origin companies and 2 of 18 non-Indian origin companies have had 3 or more CSR Committee meetings.

Number of CSR committee meetings by Indian origin and non-Indian origin companies



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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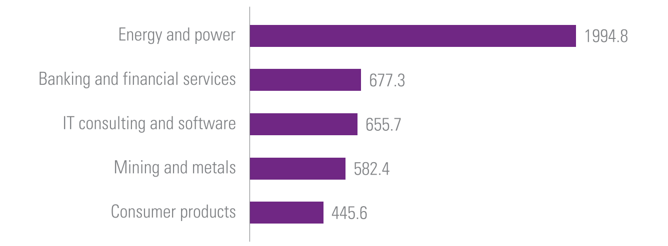
Energy and power sector account for the highest spends, i.e. INR1,994 crore (39 per cent) of total spends followed by BFSI (13 per cent), IT (13 per cent), mining and metals (11 per cent), and consumer goods (9 per cent). This is to the tune of 85 per cent of the total spends by N100 companies.

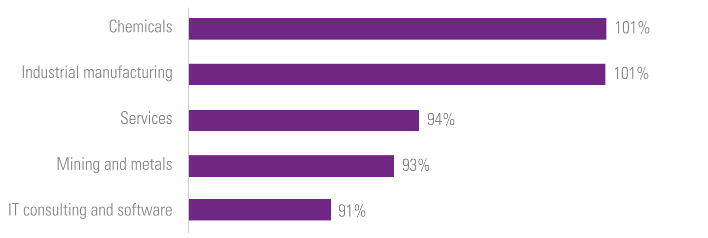
Top five Industries based on spending towards CSR (INR in crore)



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Chemical and industrial manufacturing industry has spent more than the prescribed 2 per cent towards CSR followed by services (94 per cent), mining and metals (93 per cent), and IT (91 per cent).

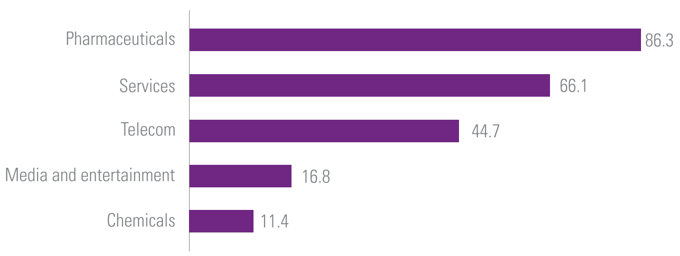
Top five industries based on amount spent on CSR against prescribed 2 per cent



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Chemical industries, media and entertainment, telecom, services and pharmaceutical industry together contribute less than 5 per cent of the total spends by N100 companies.

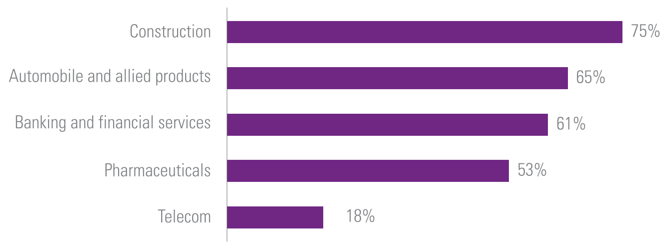
Bottom five industries based on spending towards CSR (INR in crore)



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

Telecom industry spent merely 18 per cent (the least in the industry segment) followed by pharmaceuticals (53 per cent), BFSI (61 per cent), automobile (65 per cent) and construction industry (75 per cent).

Bottom five industries based on amount spent on CSR against the prescribed 2 per cent (INR in crore)



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2015

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3 About KPMG in India's CSR services

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KPMG in India has been contributing significantly in the CSR arena/space, helping clients articulate their social investment vision and effectively translating that into a thorough and sustainable CSR strategy. We also assist clients in reviewing their CSR implementation plan, helping them establish compliance in line with the CSR provisions of the Companies Act, 2013 and other relevant regulations concerning taxation, etc. We work with a multi-disciplinary team involving personnel from our climate change and sustainability, development and tax practice. to pro-actively engage in finding efficient methodologies and approaches on CSR.

Our broad approach towards CSR in a programmatic manner, including tax and regulatory matters

Our value proposition

KPMG in India has set up a CSR task force that offers a thorough CSR approach to clients, including policy formulation, project design, monitoring and evaluation frameworks, CSR reporting, tax efficient methodologies to execute projects and assurance to help ensure compliance with regulatory requirements and alignment with global leading practices in CSR.

Our service offerings in India include:

Compliance review, advisory and assurance

- Check the applicability to Section 135 of the Companies Act, 2013 and validate the CSR budget to be spent by the company
- Conduct a gap analysis review of current CSR projects undertaken vis-à-vis requirements of the Act
- Analyse and develop a CSR policy and a CSR governance structure
- Evaluate partner selection process to help ensure alignment to Section 135 of the Act
- Provide an annual review of CSR covering various aspects of the project cycle and Section 135 of the Act.

Preparation and implementation of strategy design

- Design of CSR projects in line with global leading practices – developing SOPs, defining objectives, selecting a beneficiary group, partner identification and selection, defining, monitoring and evaluation mechanism, designing implementation modalities
- Evaluate and identify effective tax models to implement CSR projects
- Assist in need assessment studies and conduct due diligence of partners implementing CSR projects including tax and regulatory due diligence
- Design an outreach and expansion strategy
- Design an implementation road map for CSR projects
- Help initiate training and capacity building on CSR
- Evaluate tax deductibility of CSR expenditure incurred by the company
- Assist in establishing a separate not-for-profit CSR arm along with the necessary tax and regulatory registrations.

Monitoring and evaluation

- Set up a concurrent monitoring framework at the organisation and project level
- Undertake quarterly concurrent monitoring and conduct impact evaluation/assessment
- Calculate Social Return on Investment (SRoI) with the help of a tool for measuring the total value created by monetising the social, environmental and economic outcomes.

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Acknowledgement

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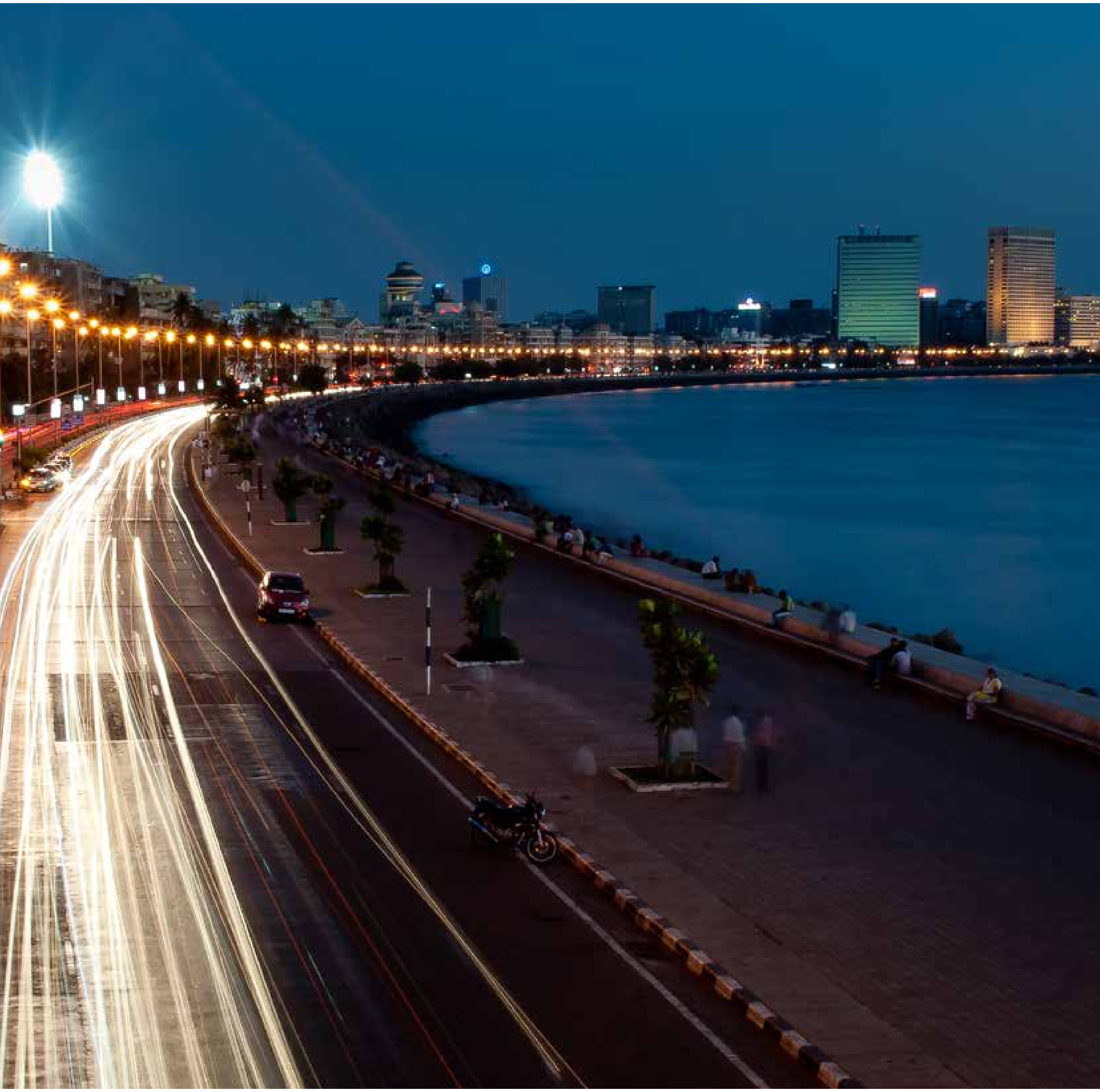

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Printed in India. (024_THL1015)