

A Study of Corporate Social Responsibility and Financial Performance of Selected Indian Fertilizer Companies

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Abstract:

India has the world's richest record of Corporate Social Responsibility (CSR). The concept of Corporate Social Responsibility may be new to the corporate world, but it was originated from Mauryan period, where philosophers like Kautilya tinted moral ethics and practices while operating business.

“Corporate Social Responsibility is the continuing commitment by the business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

Today, companies are expected to be answerable, accountable, and responsible to benefit the society as a whole. The initiatives like ISO 14001, SA-8000, OHSAS-18001 ISO -26000, Global Reporting initiative and the Global Compact etc. are a good initiation towards CSR. Several regulatory changes have been introduced by the government over time to ensure organizations and companies play their part in CSR initiatives, for example, section 135 and schedule VII of the companies Act. as well as the CSR provisions of the Companies' Act 2014

This paper aims at studying the CSR expenditure of top 4 Indian fertilizer companies and relationship between their financial performance and CSR expenditure. The study outcome that there is significant positive relation between Corporate Social Responsibility and financial parameters such as Profit After Tax and Earning Per Share. Hence government should encourage the organizations to spend on CSR initiatives, which will not only promote environment sustainability and social causes, but this will also promote the gesture of giving back to the society and environment. Additionally, for organizations, it will impact consumer satisfaction and will positively boost their brand image.

Keywords: Corporate Social Responsibility (CSR), financial performance, Profit After Tax (PAT)

Introduction

India has the world's richest record of Corporate Social Responsibility (CSR). The concept of Corporate Social Responsibility may be new to the country, but it was originated from Mauryan period, where philosophers like Kautilya tinted moral ethics and practices while operating business. During the prehistoric times, CSR was unceremoniously practiced in the form of gift, charity and donation to underprivileged group of people. Indian scriptures have comprehensive the magnitude of sharing ones earning with the deprived section of the society.

Religion plays a significant character for promoting Corporate Social Responsibility. Sharing and compassion is embedded in the Indian culture. Dharmada, where the vendor charges an accurate amount from the customer, which was used for charity function. The Bhagwad Gita, a divine book of the followers of Hinduism, promotes the perception of charity, and allied with realizing the divine within. Correspondingly, Sikhs followed

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Daashaant that means 10% of income in charity which is known as wand chakna. Christianity highlighted the significance of benevolent time and personal service for the benefit of others. In fact, Christians were told 'let thy right hand not know what thy left-hand gives', signifying the importance of giving but not for publicity.

The ordinary method of budding from babyhood to old age through accomplishment of the duties of each of the four stages of brahmachari (apprentice), grihastha (family), vanaprastha (elder advisor) and sannyasa (religious solitaire) in recreation of the four human goals, dharma (virtue), artha (wealth), kama (pleasure) and moksha (liberation). This is personage social responsibility in relation to the family, association and the general public. Vedanta promotes the welfare, progress, development and happiness of all beings. This also indicated by a popular prayer – loka samastha sukhino bhavanthu, which means that all may be happy and healthy. A business organization should earn profit / create wealth and it should be used to satisfy the needs of the society (Mahavir, 2001). The Vedic philosophy supports earning of wealth and right action on its use on self, commotion and charity for the welfare of deprived sections of the society. When it is expended on the welfare of others, it returns in many folds (Rig Ved 1-8). In Atharva Ved, it is rightly said that “May we together shield each other and may we not be envious towards each other. Wealth is essentially a tool and its continuous flow must serve the welfare for achieving common good of society people” (Atharva Ved 3-2, 4-5). These ideals can be extended to provide model for CSR in the context of modern business organizations. According to World Business Council for Sustainable Development, “Corporate Social Responsibility is the continuing commitment by the business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

The accountability of business in the general public has undergone abundant changes. Awareness of the collision of business on society and environment has developed all along escalating socio-regulatory pressures. It is no longer easy enough to occupy people, make profits and pay taxes. Companies are now expected to be answerable, accountable, and responsible to benefit the society as a whole. The initiatives like ISO 14001, SA-8000, OHSAS-18001 ISO -26000, Global Reporting initiative and the Global Compact etc. are a good initiation towards CSR.

The government is playing a vital role to accommodate the indulgent of social responsibility, making it obligatory for different organizations to use assured profits in areas that benefit the society. The Companies Act 2013, Ministry of Corporate Affairs has recently notified section 135 and schedule VII of the companies Act. as well as the CSR provisions of the Companies' Act 2014 (revised), which has come into effect from 1 April 2014, provide the threshold limit for applicability of the CSR to a company.

- Net worth of the company to be Rs 500 crore or more
- Turnover of the company to be Rs 1000 crore or more
- Net profit of the company to be Rs 5 crore or more

It not only applicable to Indian companies but also on foreign companies who have branch office(s) in India. The companies are required to spend at least 2% of its average net profit for the preceding 3 financial years on CSR activities.

The company should announce its CSR activities in which its utter about the average net profit for the preceding three financial years and also prescribed CSR expenditure. However, if the company is in competent to squander the minimum requires expenditure, explanation in the board report for non-compliance should be specified in order to flee penalties.

This paper basically highlights on the expenditure on CSR activities of selected Indian fertilizer companies and also examines how CSR is allied with the financial performance of these companies.

REVIEW OF LITERATURE:

Adams and Hardwick (1998): The study investigated data of 100 companies listed in U.K. in 1994 liaison between the political, charitable and social donation with companies' volume, profitability, tenure and leverage. The findings exhibit encouraging relation between donation and firm volume and profitability.

Sachin Kumar (2015): considered eight foremost electronic home appliances brands in India and has examined the Corporate Social Responsibility policies of these companies, their green marketing initiatives and the method of implementation of these policies by the selected units.

Alok Kumar Mathur (2012): In his study selected five pharmaceutical companies and found that companies are activity concerned in social responsibility such as environment, physical condition, education, community care, livelihood and skill development other than profit making.

Inder Pal Singh (2015): Enlightened that private sector banks provide better service to customers as compared to public sector banks. However, both ignored the social responsibility of environment.

Oeyono et al., (2011): Inspected the relationship between Corporate Social Responsibility disclosure and profitability among apex 50 companies. He used GRI 2007 guidelines, which include five indicators of human rights, economics, society and product responsibility, environmental and social. It was found that most of the firms adopted CSR in their business.

Saleh et al.(2011): Scrutinized the empirical association between CSR disclosure and financial performance of top 200 firms of Malaysia from 1999 to 2006. It includes four indicators such as environmental, employee relation, society interest, and product dimension. The investigation accomplished that CSR and financial performances are positively related.

Pachar (2012): Analyzed the liaison between CSR misuse and financial governance in India. The study examined the connection between CSR and budgetary enforcement using experimental policy. He concludes that in most of the companies, there is a lack of compliance of financial discipline and CSR activities as per Companies' Act.

Yildirim and Dincer, (2016): This research paper analyzed various CSR practices, particularly philanthropic practices from a strategic angle of the businesses. In this study, quality of CSR practices has been evaluated in private hospitals. For this purpose, publication on CSR practices by private hospitals has been scrutinized and measured through MAXQDA software.

Objective of study

- To study the CSR expense in top 4 Indian fertilizer companies
- To analyze the financial performance of selected Indian fertilizer companies
- To analyze the relationship between CSR expenditure and financial performance of selected Indian Fertilizer Companies

- To compare CSR expenditure of selected public and private sector fertilizer companies

Hypothesis of the study:

1. **H01:** There is no considerable divergence in Corporate Social Responsibility expense of selected Indian fertilizer companies.
2. **H02:** There is no considerable divergence in profit after tax (PAT) of selected Indian fertilizer companies.
3. **H03:** There is no considerable difference in earning per share (EPS) of selected Indian fertilizer companies
4. **H04:** There is no difference in CSR expense between selected Indian public and private sector fertilizer companies.

Research Methodology

Secondary data from published annual reports has been collected. Data include profit after tax (PAT), earning per share (EPS) and Corporate Social Responsibility expenditure, sustainability exposure of chosen Indian fertilizer companies for the period of 5 years from 2015-16 to 2019-20 has been used for the study. For testing the hypothesis ANNOVA test has been applied.

Selection of Samples

Indian Fertilizers Industry is the third largest industry in the world after USA and China. It is one of the allied sectors of the agricultural sphere which is backbone of Indian economy. Indian nation is mostly depending on fertilizer companies for growing crop to congregate the demand of mounting Indian population. Four Indian fertilizer companies are selected for study two from private companies and two from public sector companies

S. No.	Company Name	Sector
1	Coromendal International Ltd.	Public
2.	Rastriya Chemical and Fertilizer Ltd.	Public
3.	Mangalore Fertilizer and Chemical Ltd.	Private
4.	Zuari Agro Chemical Ltd.	Private

Limitations of the Study

- The study is partial to four selected Indian fertilizer companies. Sample is too small to represent the population.
- In the study, secondary data has been collected from annual reports, company's website, sustainability report and other financial statement of selected companies, which is less viable than the primary data. Secondary data also has its own restraint.

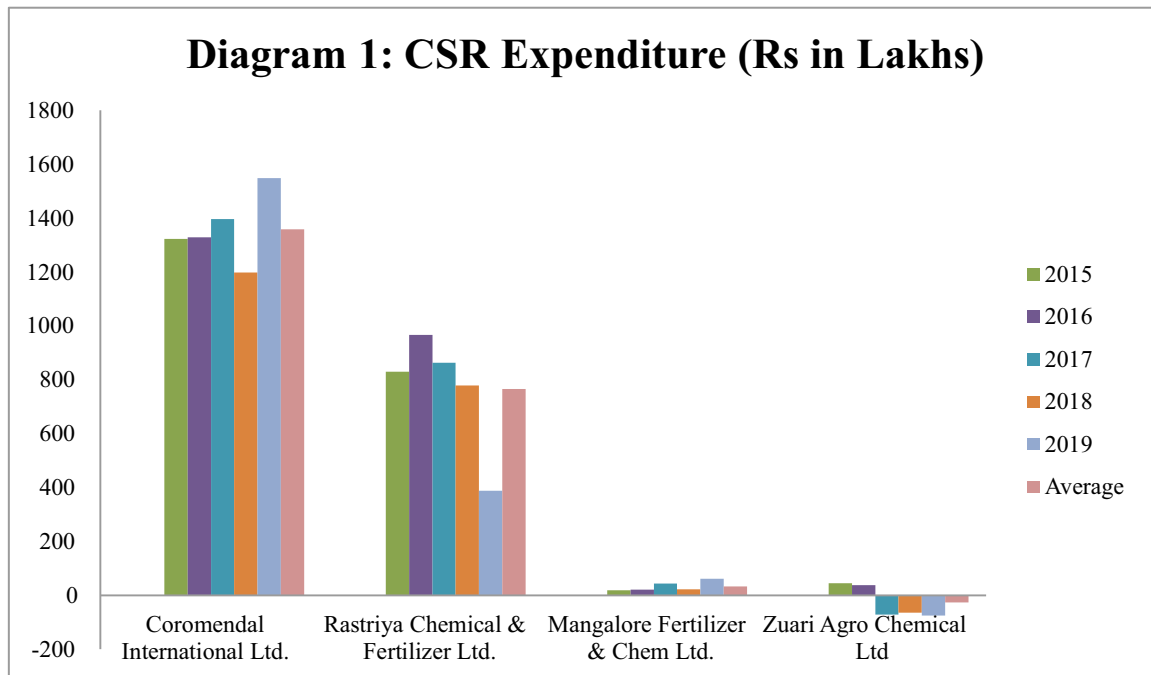
Analysis and Discussions

1. **CSR Expenditure:** Table 1 shows CSR expenditure of selected companies for five years period and average CSR expenditure.

Table 1: Corporate Social Responsibility (CSR) Expenditure (Rs. in lakhs)

Companies	2015	2016	2017	2018	2019	Average
Coromendal International Ltd.	1323	1328	1396	1198	1548	1358.6
Rastriya Chemical & Fertilizer Ltd.	830	966	863	779	388	765.2
Mangalore Fertilizer & Chemical Ltd.	19	21	43	22	61	33.2
Zuari Agro Chemical Ltd.	45	37	-72	-65	-75	-26

(Source: Annual Reports of Selected Companies)



(Source: Table 1)

Table 1 specifies the facts concerning Corporate Social Responsibility operating expense in selected Indian Fertilizer companies. Coromendal International Ltd. shows the fluctuated trends of CSR expenses throughout the study phase. The maximum CSR Expenses Rs.1548 lakh in 2019 and the minimum CSR expense was Rs 1198 lakh in 2018, its average CSR Expense is Rs 1358.6 Lakh. Rastriya Chemical and Fertilizer Ltd. shows the fluctuated trends of CSR expenses throughout the study phase. The maximum CSR expenses of the company is in the year 2016 Rs.966 lakh while minimum expense Rs 388 lakh in 2019 where as the average expense was Rs 765.2 lakh. The Mangalore Fertilizer and Chemical Ltd. also show the fluctuated trends of CSR expenses throughout the study phase. The highest CSR expense was Rs 61 lakh in 2019 and the lowest is 19 lakhs in

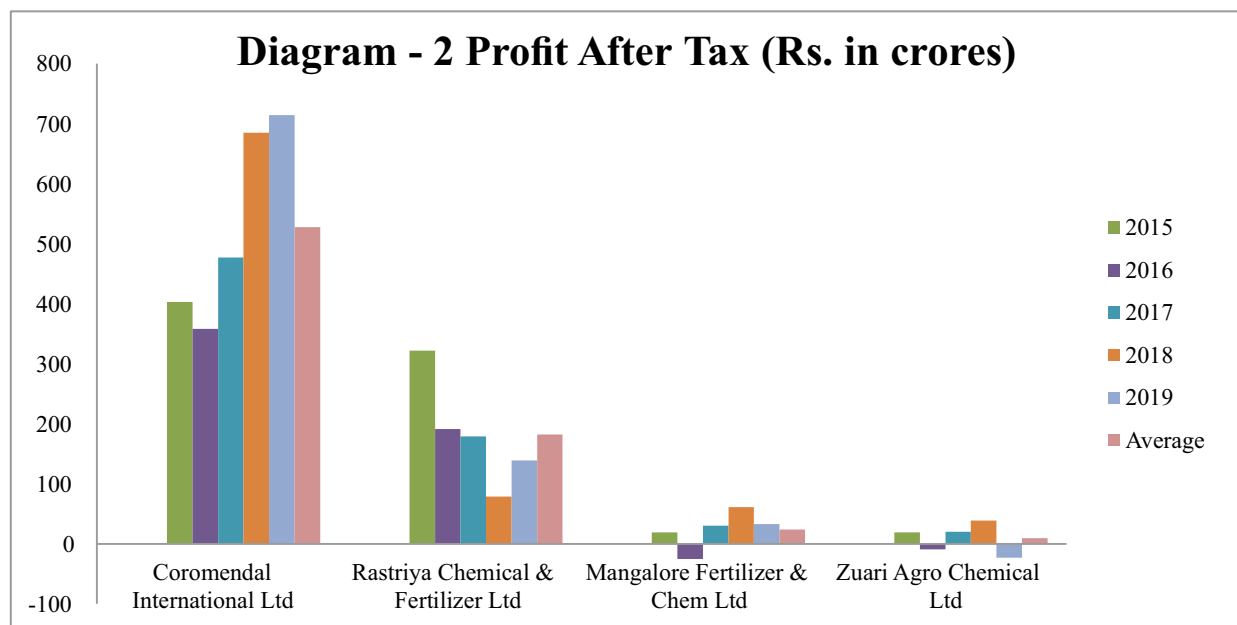
2015. However, the average CSR expense was 33.2 lakh. Zuari Agro Chemical Ltd. also had fluctuated trends of CSR Expense throughout the study phase as companies is suffering a loss for the year 2017, 2018 & 2019, so it does not fulfill the criteria of CSR expense for certain year, whereas company maximum CSR expense in Rs 45 lakh in 2015 and minimum was negative in 2019 i.e., Rs 75 lakh and average CSR expense was negative Rs.26 lakh. The average CSR expense was Rs 1358.6 lakh of Coromendal International Ltd. is maximum than the other three companies' average expense. Average differentiation between public and private companies Coromendal International spend Higher on CSR i.e., Rs1358.6 lakh as compare to Zuari Agro chemical Ltd. spent less on CSR Rs.26 lakhs, as the company suffered losses.

2. **Profit After Tax (PAT):** Profit after tax is an important determinant of financial performance of any business. PAT of selected fertilizers is shown in table 2.

Table 2 Profit After Tax (Rs. in Crore)

Profit After Tax						
Companies	2015	2016	2017	2018	2019	Average
Coromendal International Ltd.	403	358	477	685	714	527.4
Rastriya Chemical & Fertilizer Ltd.	322	191	179	78.8	139	181.96
Mangalore Fertilizer & Chemical Ltd.	19	-25	30	61	33	23.6
Zuari Agro Chemical Ltd.	19	-9	20	39	-23	9.2

(Source: Annual Reports of Selected Companies)



(Source: Table2)

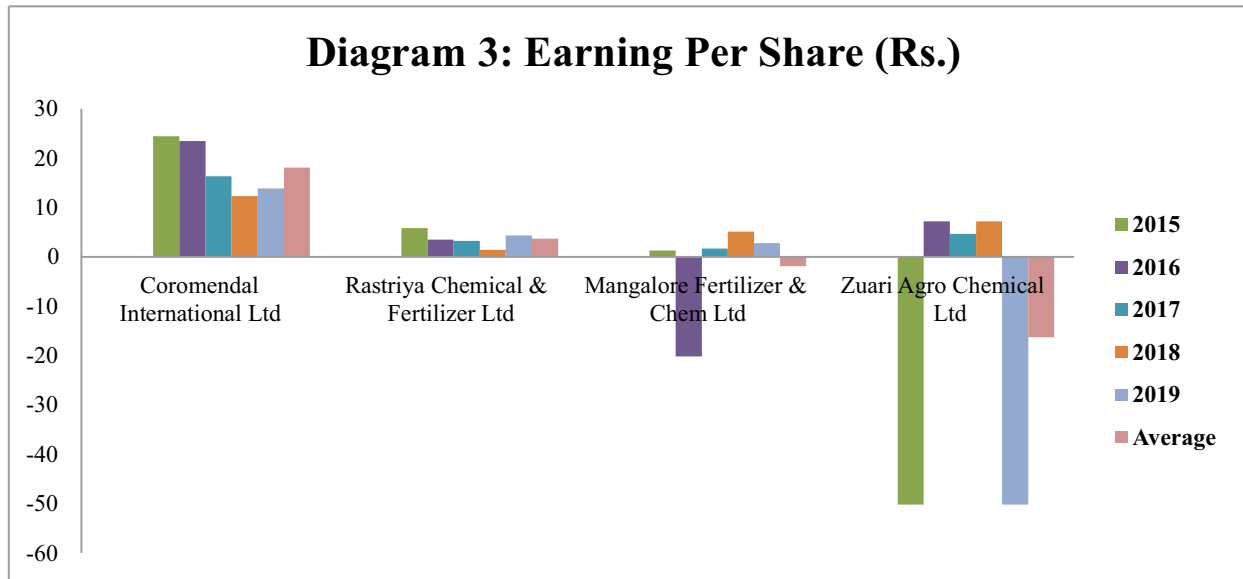
Table 2 indicates Profit After Tax (PAT) in selected Indian fertilizer companies. Coromendal shows the fluctuated trends of PAT during study period. The company's maximum PAT was Rs.714 crore in 2019 and minimum in 2016 i.e., Rs.358 crore. The highest average PAT of selected company is Rs.527.4 crore. Rastriya Chemical & Fertilizer Ltd. shows the fluctuated trends of PAT during study period of last five years, the company's maximum PAT is Rs.322crore in financial year 2015 and minimum PAT in the year 2018 Rs.78.8crore and average of last five financial years is Rs.181.96 crore. The Mangalore Fertilizer and Chemical Ltd. shows a fluctuated trend in PAT in selected study period. The company's highest PAT is in the year 2018, Rs.61 crore and the company suffered loss of Rs. 25 crores in the year 2016. Average of last five years was Rs. 23.6 crore. Zuari Agro Chemical Ltd. shows fluctuated trend in PAT in selected study period. The company's highest PAT was Rs. 39 crores in the financial year 2018, as the company was suffering from loss and the maximum loss of Rs 23 crore was in the year 2019. Average PAT of five selected financial years was Rs. 9.2 crore. The maximum average PAT of selected companies of last five year is 527.4 crore. Average differentiation between public and private companies, public company Coromendal international earned higher PAT of Rs.714 crore and private company Zuari Agro Chemical Ltd. suffered a loss of Rs. 23 crores.

3. **Earnings Per Share (EPS):** Earnings Per Share is a tool used to measure the financial performance of any business. EPS of selected fertilizer companies is shown in table 3.

Table 3: Earning per Share (In Rs.)

Earnings Per Share						
Companies	2015	2016	2017	2018	2019	Average
Coromendal International Ltd..	24.41	23.44	16.35	12.29	13.85	18.068
Rastriya Chemical & Fertilizer Ltd..	5.84	3.47	3.25	1.43	4.36	3.67
Mangalore Fertilizer & Chemical Ltd..	1.25	-20.18	1.64	5.11	2.77	-1.882
Zuari Agro Chemical Ltd..	-50.2	7.21	4.66	7.21	-50.2	-16.264

(Source: Annual Reports of Selected Companies.)



(Source: Table 3)

Table 3 indicates the data regarding Earning Per Share (EPS) in the selected companies of last five years. Coromendal Company shows fluctuated trends towards the EPS ratio. It shows the highest EPS ratio was (Rs. 24.41) in the year 2015 and lowest (Rs. 12.29) in the year 2018 and the average EPS ratio of the company was Rs. 18.068. The Rashtriya Chemical & Fertilizer Ltd. specified maximum EPS ratio in the year 2015 of Rs. 5.84 and minimum (Rs. 1.43) in 2018. The average EPS of the company is Rs. 3.67. The Mangalore Fertilizer and Chemical Ltd. had maximum EPS ratio of the company (Rs. 5.11) in the financial year 2018 and minimum (Rs. -20.18) in 2016, as company suffered huge losses. Zuari Agro Chemical Ltd. showed fluctuated trends in the selected study period. The company's maximum EPS ratio was Rs 7.21 in 2016 & 2018 and minimum was Rs. -50.2 in 2015, as company suffered losses in this year. The average EPS ratio of last five years is Rs. -16.264, as company suffered losses in the years 2015 and 2019. Public sector company, Coromendal International earned higher average EPS (Rs. 18.068), whereas, private sector company, Zuari Agro Chemical Ltd. earned negative EPS (Rs. -16.264) as company suffered loss.

Test of Hypothesis: For testing the hypothesis ANOVA test has been applied

ANOVA Test for CSR Expenditure					
Source of variation	Sum of Squares	df	F value	P Value	F value (Table)
Between selected Fertilizer companies	-304274	4	-0.1614	0.05	2.3614
Within selected Fertilizer companies	7071554	15			

Calculated F-Value is -0.1614 and table value of F is 2.3614 (at 5% Significance level) Hence $F(\text{calculated}) < F(\text{Table})$ Therefore we have enough evidence to accept the Null Hypothesis. Therefore, there is no significant difference in the variance of the CSR in last 5 years.

ANOVA Test for PAT					
Source of variation	Sum of Squares	df	F value	P-Value	F-value (Table)
Between selected Fertilizer companies	-328420	4	-1.2374	0.05	2.3614
Within selected Fertilizer companies	995260.1	15			

Calculated F-Value is -1.2374 and table value of F is 2.3614 (at 5% Significance level). Hence $F(\text{calculated}) < F(\text{Table})$ Therefore we have enough evidence to accept the Null Hypothesis. Therefore, there is no significance difference in the variance of the PAT in last 5 years.

ANOVA Test for Earning Per Share					
Source of variation	Sum of Squares	df	F value	P-Value	F-value (Table)
Between selected Fertilizer companies	457.0982	4	0.2459	0.05	2.3614
Within selected Fertilizer companies	6971.041	15			

Calculated F-Value is 0.2459 and table value of F is 2.3614 (at 5% Significance level) Hence $F(\text{calculated}) < F(\text{Table})$ Therefore we have enough evidence to accept the Null Hypothesis. Therefore, there is no significance difference in variance of the Earning after Share in last 5 years.

Results: The results of the above analysis and hypothesis test are as follows:

1. The average CSR expenses were Rs.1358.6 crore of Coromendal International Ltd., which was higher than other selected Indian Fertilizer Companies CSR Expenses. The Anova test of CSR expenses is significant at 5% level of significance.
2. The average PAT was Rs. 527.4 lakh in Coromendal International Ltd. which was maximum than other selected Indian Fertilizer Companies PAT expense. The Anova test of PAT shows that the difference in PAT is insignificant at 5% level of significance.
3. The average EPS was Rs.18.068 of Coromendal International Ltd., which was maximum than other selected Indian fertilizer companies average EPS expense. The Anova test of PAT shows that the difference in EPS is significant at 5% level of significance.
4. The average expenditure on CSR in public and private companies is different. Public company Coromendal International Ltd. spent more on CSR as compared to private company Mangalore Fertilizer and Chemical Ltd. & Zuari Agro Chemical Ltd.

Conclusion:

The government has made a diversity of initiatives to persuade companies to take vibrant part in nation progress by gratifying its social responsibilities. Recognizing the consequence of CSR in the Corporate World in addition to the society, the current study has been conducted to investigate the most momentous CSR practices by the Indian fertilizer industries. The research examined association between CSR and two financial

performance parameter PAT and EPS in the preferred four Indian fertilizer companies. The study outcome that there is significant positive connection between Corporate Social Responsibility and financial parameters such as Profit After Tax and Earning Per Share. Moreover, the preferred companies are two from public sector and two from private sector. Private sector companies having more turnover than public sector companies, are spending more amount on Corporate Social Responsibility (CSR) activities.

In a nutshell, government should promote CSR studies to acquire an idea of altering circumstances, realities and fulfillment of institutions. It can provide good feedback for future policy making. Corporates should understand that sustainability or CSR is not only a subject of public affairs or philanthropic activities, but also planned initiatives that are vigilantly integrated into business functions. Through sustainability initiatives, companies can enhance customer satisfaction, and simultaneously boost business growth and profitability.

Scope for further research work:

Extensive study can be done to evaluate the variation between public and private Indian fertilizer companies on CSR expenditure, other financial performances such as Return on Assets (ROA), Return on Capital employed (ROCE) and Return on Equity (ROE).

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