

## IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON PROFITABILITY OF SELECTED NON-BANKING FINANCIAL COMPANIES IN INDIA

---

Shaifali Sharma\*

### ABSTRACT

*This study is an attempt to examine the relationship between the expenditures incur on corporate social responsibility and profitability of the selected non-banking financial companies and to analyse the impact of CSR expenditures on the profitability of selected companies during the period of eight years from F.Y. 2014-15 to F.Y. 2021-22. The study is done on two NBFCs which are HBD Financial Services Limited and Cholamandalam Investment and Finance Company Limited. The data used for analysis is secondary and have been extracted from the annual reports of concerned NBFCs. The objectives of this study have been accomplished by using various statistical tools in Minitab Statistical Software. Anderson-Darling test for checking the normality of data, Pearson Correlation Coefficient for examining the relationship between variables and Simple Linear Regression for analysing the impact of CSR expenditures on profitability.*

---

**Keywords:** Corporate Social Responsibility, Profitability, Non-Banking Financial Companies, Minitab Statistical Software, Anderson-Darling Test, Pearson Correlation Coefficient, Simple Linear Regression.

---

### Introduction

Corporate Social Responsibility (CSR) is a strategic concept that forms an integration of company's business operation with the social and environmental responsibilities. The concept of CSR is closely related to sustainability which states that a company should focus on its economic, social and environmental values and ESG concept that stands for environmental, social and governance. Under CSR, a company incorporates strategies that protect interest of their stakeholders i.e., employees, shareholders, investors, customers, suppliers, government and other enterprises etc. CSR creates a sense of responsibility towards environment, society, their stakeholders and so on. It provides an opportunity to work for the betterment of the society.

### Provision under Companies Act, 2013

As per section 135 of The Companies Act, 2013, Companies (Corporate Social Responsibilities) Rules, 2014 and Schedule VII, it is mandatory for the companies to comply with the CSR provisions in India. Companies having net worth of Rs. 500 crores or more, or turnover of Rs. 1000 crores or more, or net profit of Rs. 5 crores or more shall spend a minimum of 2% of the average net profits of immediately preceding three financial years of the company.

---

\* Ph.D. Research Scholar, Department of Accountancy & Law, Faculty of Commerce, Dayalbagh Educational Institute (Deemed to be University), Agra, Uttar Pradesh, India.

### Importance of Corporate Social Responsibility

CSR policies make the business more sustainable, innovative and creative that allows a company to adjust and improvise as per the customers wants and survive in cut throat competition.

CSR encourages loyalty of the customers towards the company. In the present time, people are highly attracted to charitable organization. If a company pays attention towards CSR, it creates a sense of pride in customers when they associate with it.

CSR creates a brand value for company and plays a crucial role in making brand popular among the customers.

CSR ensures fair treatment for all the stakeholders that creates a positive word of mouth around them and takes a business towards growth and success.

### Non-Banking Financial Companies (NBFCs)

"A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchasing, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.

A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company)."

#### "As per Section 451(f) of RBI Act, 1934:

- Non-Banking Financial Company means-
- A **Financial Institution** which is a company;
- A **Non-Banking Institution** which is a company, and which has its **Principal Business** the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;

Such **other Non-Banking Institutions** or class of institutions, as RBI specifies."

### Literature Review

**Sameer, I. (2021)**, in their study titled "Impact of Corporate Social Responsibility on Organization's Financial Performance: Evidence from Maldives Public Limited Companies" determined the association between CSR and financial performance. Data were analyzed by using penal data regression in STATA 15 Software and inferred a significant negative relation between CSR and financial performance.

**Wu, X. et.al. (2021)**, in their article titled "Corporate Social Responsibility and Profitability: The Moderating Role of Firm Type in Chinese Appliance Listed Companies" studied and verified the impact of profitability of different types of companies on CSR measures. The regression analysis was employed and the results showed a significant impact of profitability on CSR.

**Reddy, N. et.al. (2018)**, conducted a study on "Impact of Corporate Social Responsibility on Financial Performance" to investigate the influence of CSR on financial performance. This study, by employing correlation, documented a significant relation between CSR and financial performance.

**Akinleye, G. & Faustina, A. (2017)**, in their paper titled "Impact of Corporate Social Responsibility on the Profitability of Multinational Companies in Nigeria" assessed a weak negative correlation between CSR spendings and profit after tax and an insignificant impact on profit after tax by applying correlation analysis and pooled OLS estimation.

**Bhunia, A. & Das, L. (2015)**, conducted a study on "The Impact of Corporate Social Responsibility on Firm's Profitability- A Case Study on Maharatna Companies in India" and employed correlation, simple regression and multiple regression to conclude that some of the sample companies are shown a negative correlation between CSR and profitability ratios and some of them are shown positive correlation.

**Objectives**

Following objectives have been considered for this study:

- To examine the relationship between CSR expenditure and profitability of selected NBFCs.
- To analyse the impact of CSR expenditure on profitability of selected NBFCs.

**Research Methodology**

- **Type and Source of Data:** The study is analytical in nature. Secondary data have been used for this study. The data have been collected from the annual reports of selected NBFCs which consist CSR expenditures and net profit after tax as profitability indicator. A considerable literature review has been done to understand the CSR concept and its relation with the performance of companies.

**Sample Size**

A sample of two NBFCs have been taken which are amongst the leading NBFCs in India. Selection of sample has been done on the basis of convenient sampling. Selected two NBFCs are –

- HBD Financial Services Limited
- Cholamandalam Investment and Finance Company Limited

**Duration of the Study**

- Eight financial years have been considered for this study i.e., from F.Y. 2014-15 to F.Y. 2021-22.

**Data Analysis Tools**

Anderson-Darling tool is employed to check the normality of data. Pearson Correlation Coefficient and Simple Linear Regression are used to examine the relationship between CSR expenditure and profitability and to analyse the impact of CSR expenditure on profitability respectively. For which CSR expenditure is considered as independent variable and profitability (net profit after tax) is considered as dependent variable. All the above tests have been performed in Minitab Statistical Software.

**Research Hypotheses**

**H<sub>0</sub>:** There is no significant relationship between CSR expenditure and profitability of selected NBFCs.

**H<sub>1</sub>:** There is significant relationship between CSR expenditure and profitability of selected NBFCs.

**Data Analysis and Interpretation****Results of Anderson-Darling Test**

Using Minitab Statistical Software, Anderson-Darling test has been performed to check the normality of CSR expenditures and net profits after tax of HBD Financial Services Limited and Cholamandalam Investment and Finance Company Limited.

**Hypotheses for Anderson-Darling Test**

**H<sub>01</sub>:** CSR expenditures of HBD Financial Services Limited is normally distributed.

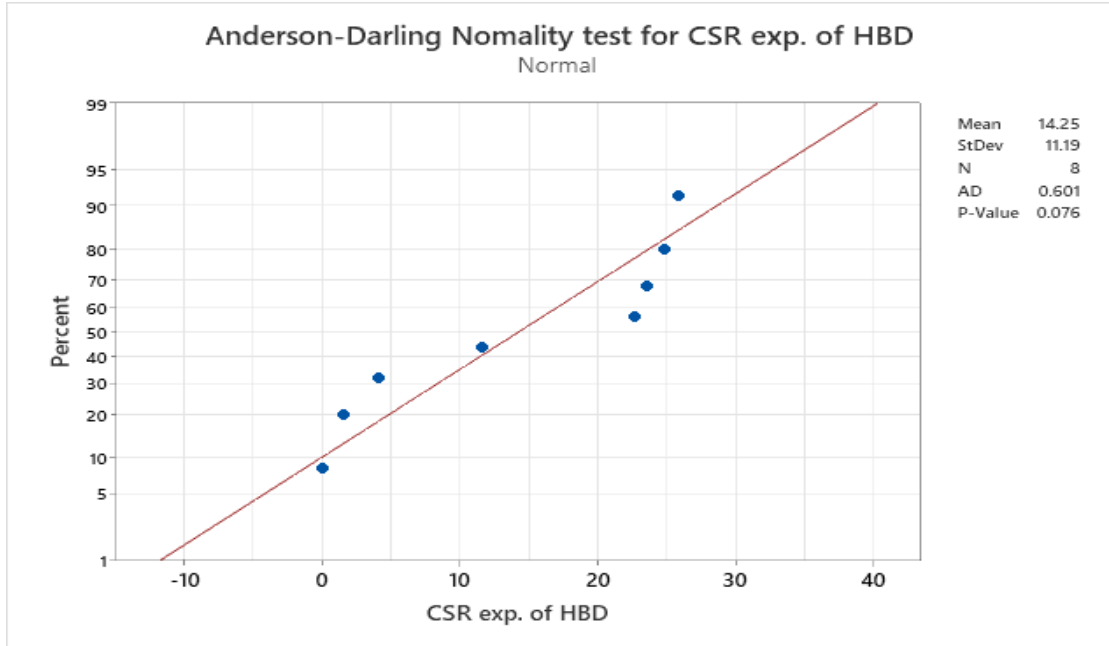
**H<sub>02</sub>:** Net profits after tax of HBD Financial Services Limited is normally distributed.

**H<sub>03</sub>:** CSR expenditures of Cholamandalam Investment and Finance Company Limited is normally distributed.

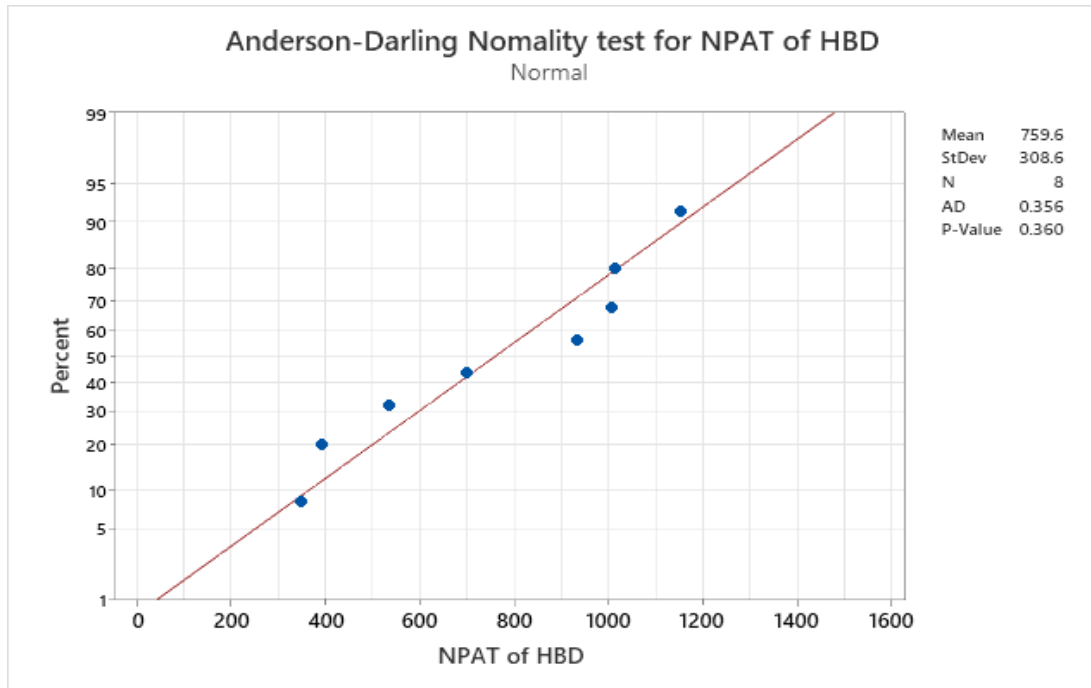
**H<sub>04</sub>:** Net profits after tax of Cholamandalam Investment and Finance Company Limited is normally distributed.

Graph 1 and 2 show the test results of CSR expenditures and net profit after tax of HBD Financial Services Limited, which indicate that null hypotheses for both the variables are accepted at 5% level of significance as  $p$  values are greater than 0.05 ( $p$  value of CSR expenditures = 0.076 and  $p$  value of net profit after tax = 0.360). Therefore, CSR expenditures and net profit after tax of HBD Financial Services Limited are normally distributed.

**Graph 1: CSR expenditures of HBD Financial Services Limited**

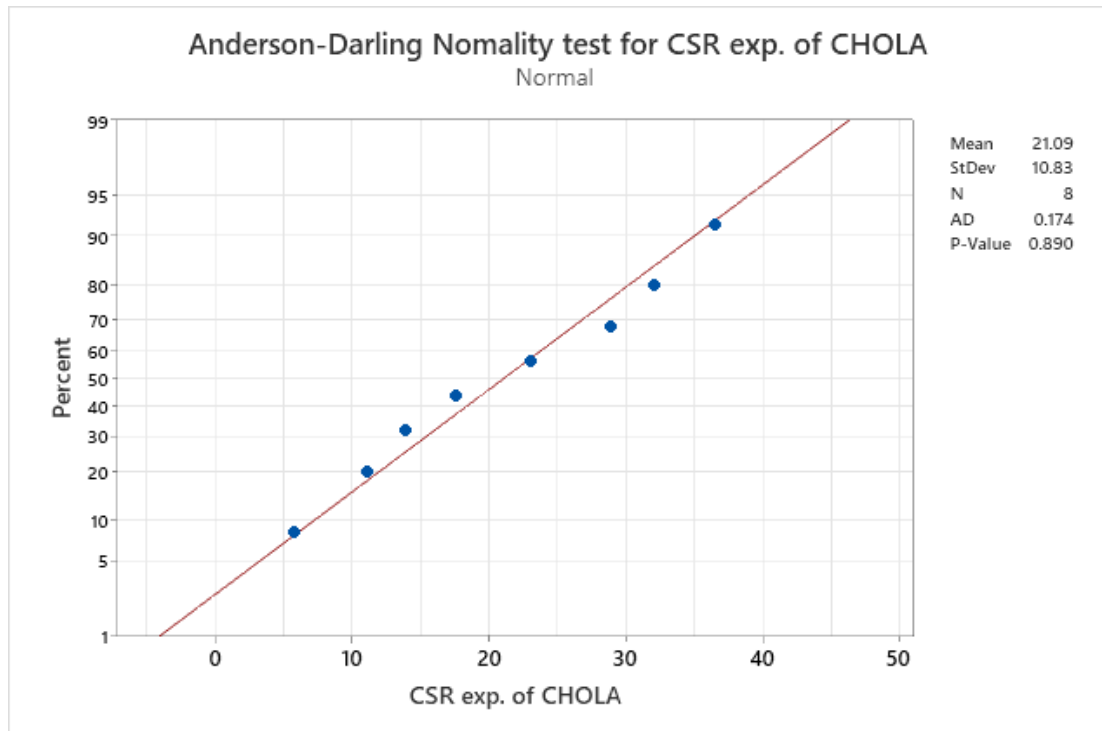


**Graph 2: Net profits after tax of HBD Financial Services Limited**

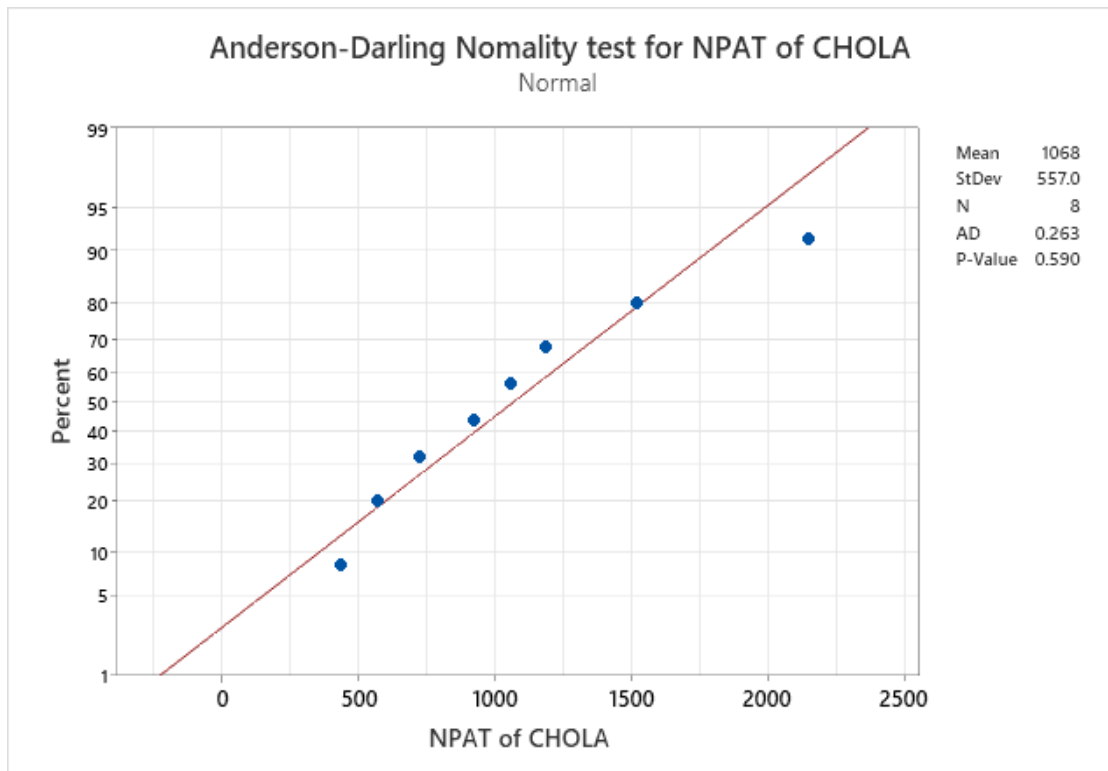


Graph 3 and 4 show the test results of CSR expenditures and net profit after tax of Cholamandalam Investment and Finance Company Limited, which indicate that null hypotheses for both the variables are accepted at 5% level of significance as  $p$  values are greater than 0.05 ( $p$  value of CSR expenditures = 0.890 and  $p$  value of net profit after tax = 0.590). Therefore, CSR expenditures and net profit after tax of Cholamandalam Investment and Finance Company Limited are normally distributed.

**Graph 3: CSR expenditures of Cholamandalam Investment and Finance Company Limited**



**Graph 4: Net profits after tax of Cholamandalam Investment and Finance Company Limited**



## Results of Pearson Correlation Coefficient and Simple Linear Regression

### Results of HBD Financial Services Limited

- Table 1 shows the CSR expenditures and profits after tax of HBD Financial Services Limited from F.Y. 2014-15 to F.Y. 2021-22.

**Table 1: Data of HBD Financial Services limited**

(Figures in crores)

Years	CSR Expenditures	Net Profits after Tax
2014-15	0.02	349.45
2015-16	1.54	534.41
2016-17	4.09	698.77
2017-18	11.55	933.02
2018-19	22.64	1153.24
2019-20	24.8	1004.85
2020-21	23.52	391.47
2021-22	25.83	1011.4

Source: Annual Reports from F.Y. 2014-15 to F.Y. 2021-22

### Pearson Correlation Coefficient test results

Using Minitab Statistical Software, Pearson Correlation Coefficient has been performed to examine the relationship between CSR expenditure and net profit after tax of HBD Financial Services Limited. The output is presented in table 2. CSR expenditures was moderately positively correlated to net profit after tax,  $r(6) = 0.557$  and  $p > 0.05$  i.e., 0.152, that infers that null ( $H_0$ ) is accepted and the relationship between CSR expenditure and net profit after tax is statistically insignificant at 5% level of confidence.

**Table 2: Correlation Statistics**

#### Pairwise Pearson Correlations

Sample 1	Sample 2	N	Correlation	95% CI for $\rho$	P-Value
NPAT of HBD	CSR exp. of HBD	8	0.557	(-0.243, 0.906)	0.152

Source: Minitab Statistical Software

### Regression Test Results

The analysis shows that, the effect size of CSR expenditures or coefficient of determination ( $r^2$ ), presented in table 3, is 30.99% that indicates 30.99% variability in net profits after tax is explained by the predictor variable i.e., CSR expenditure and 69.01% variability (unexplained variation) in net profits after tax is explained by the other factors.

**Table 3: Regression Statistics**

#### Model Summary

S	R-sq	R-sq(adj)	R-sq(pred)
276.913	30.99%	19.49%	0.00%

Source: Minitab Statistical Software

The coefficient of CSR expenditures, presented in table 4, explains that when CSR expenditure increased by one-unit, net profit after tax is also increased by 15.36 units which is not significant at 5% level of significance, since the  $p$  value is greater than 0.05 ( $p > 0.05$ , i.e., 0.152). Therefore, regression output concludes that there is insignificant impact of CSR expenditure on net profit after tax of HBD Financial Services Limited during the period of eight financial years.

**Table 4: Regression Coefficients**  
Coefficients

Term	Coef.	SE Coef.	T-Value	P-Value	VIF
Constant	541	165	3.27	0.017	
CSR exp. of HBD	15.36	9.35	1.64	0.152	1.00

Source: Minitab Statistical Software

**Results of Cholamandalam Investment and Finance Company Limited**

Table 5 shows the CSR expenditure and profit after tax of Cholamandalam Investment and Finance Company Limited from F.Y. 2014-15 to F.Y. 2021-22.

**Table 5: Data of Cholamandalam Investment and Finance Company Limited****(Figures in crores)**

Years	CSR Expenditures	Net Profit after Tax
2014-15	5.77	435.16
2015-16	11.05	568.45
2016-17	13.85	718.74
2017-18	17.57	918.3
2018-19	23.07	1186.15
2019-20	28.88	1052.37
2020-21	32.07	1514.91
2021-22	36.44	2146.71

(Source: Annual Reports from F.Y. 2014-15 to F.Y. 2021-22)

**Pearson Correlation Coefficient**

Using Minitab Statistical Software, Pearson Correlation Coefficient has been performed to examine the relationship between CSR expenditure and net profit after tax of Cholamandalam Investment and Finance Company Limited. The output is presented in table 6. CSR expenditures was strongly positively correlated to net profit after tax,  $r(6) = 0.932$  and  $p < 0.05$  i.e., 0.001, that infers that null ( $H_0$ ) is rejected and the relationship between CSR expenditure and net profit after tax is statistically significant at 5% level of confidence.

**Table 6: Correlation Statistics****Pairwise Pearson Correlations**

Sample 1	Sample 2	N	Correlation	95% CI for $\rho$	P-Value
NPAT of CHOLA	CSR exp. of CHOLA	8	0.932	(0.661, 0.988)	0.001

Source: Minitab Statistical Software

**Regression Test Results**

The analysis shows that, the effect size of CSR expenditure or coefficient of determination ( $r^2$ ), presented in table 3, is 86.80% that indicates 86.80% variability in net profits after tax is explained by the predictor variable i.e., CSR expenditures and 13.20% variability (unexplained variation) in net profits after tax is explained by the other factors.

**Table 7: Regression Statistics****Model Summary**

S	R-sq	R-sq(adj)	R-sq(pred)
218.630	86.80%	84.59%	71.46%

Source: Minitab Statistical Software

The coefficient of CSR expenditure, presented in table 8, explains that when CSR expenditure increased by one-unit, net profit after tax is also increased by 47.92 units which is significant at 5% level of significance, since the  $p$  value is less than 0.05 ( $p < 0.05$ , i.e., 0.001). Therefore, regression output concludes that there is significant impact of CSR expenditure on net profit after tax of Cholamandalam Investment and Finance Company Limited during the period of eight financial years.

**Table 8: Regression Coefficients****Coefficients**

Term	Coef.	SE Coef.	T-Value	P-Value	VIF
Constant	57	178	0.32	0.760	
CSR exp. of CHOLA	47.92	7.63	6.28	0.001	1.00

Source: Minitab Statistical Software

### Findings and Conclusion

This study was conducted to find out the relationship between CSR and profitability and impact of CSR on profitability of non-banking financial companies in India. Both the companies were selected from the same industry and documented different results. The analysis of HBD Financial Services Limited shows an insignificant relationship between CSR and profitability and insignificant impact of CSR on profitability whereas, analysis of Cholamandalam Investment and Finance Company Limited shows that there is a significant relationship between CSR and profitability and significant impact of CSR on profitability. However, this study is not conclusive evidence to infer the relationship between CSR and profitability, as impact factor ( $r^2$ ) for HBD Financial Services Limited is 30.99% and for Cholamandalam Investment and Finance Company Limited is 86.80%. That means, there are various other factors/variables that contribute in the variability of profitability of the selected companies.

Thus, as limitations of this study a multivariate analysis can be considered. By increasing the sample size and duration of the study more meaningful results can be obtained. This study focuses only on non-banking financial companies, companies of other industries can also be looked for the future researches. Moreover, an inter-industry analysis can also be done to increase the comprehensiveness of the future researches.

### References

1. Sameer, I. (2021), Impact of Corporate Social Responsibility on Organization's Financial Performance: Evidence from Maldives Public Limited Companies, *Future Business Journal*, Vol. 7(1).
2. Wu, X. (2021), Corporate Social Responsibility and Profitability: The Moderating Role of Firm Type in Chinese Appliance Listed Companies, *Energies*, Vol. 14(227).
3. Reddy, N. et.al. (2018), Impact of Corporate Social Responsibility on Financial Performance, *Journal of Emerging Technologies and Innovative Research*, Vol. 5(11).
4. Akinleye, G. & Faustina, A. (2017), Impact of Corporate Social Responsibility on the Profitability of Multinational Companies in Nigeria, *Global Journal of Management and Business Research: D Accounting and Auditing*, Vol. 17(3).
5. Bhunia, A. & Das, L. (2015), The Impact of Corporate Social Responsibility- A Case Study on Maharatna Companies in India, *American Research Journal of Humanities and Social Sciences*, Vol. 1(3).

