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A study on Corporate Social Responsibility Impact and Financial Performance of NTPC Ltd.

S.Sampath
Research Scholar,
Dept of Commerce & Business Management,
Kakatiya University, Warangal.

Abstract

Building relationships with society is referred to as corporate social responsibility, and these relationships can be referred to as social relationships. This research focuses on corporate social responsibility (CSR) and how it affects NTPC Ltd.'s profitability in India. One company has been studied by the researcher. The study concluded that CSR had an impact on the company's profitability metrics, including ROTA and ROCE. The analysis is based on secondary data, specifically the company's five-year financial statements from 2013–2014 to 2017–2018. The study demonstrated a substantial inverse association between CSR and profitability, as measured by ROTA and ROCE, based on correlation and regression.

Keywords: CSR, Financial Performance, Ratio Analysis, CSR Disclosures

Introduction

A crucial component of society, business satisfies the society's expanding requirements. Society has a right to expect business to act responsibly and to fulfil certain social obligations, just as business has expectations of society. Business has an economic role as well as a social one. A business has a responsibility to contribute to the welfare of society as it receives labour, resources, materials, and other needs from society. This is a company's social responsibility. The idea behind corporate social responsibility (CSR) is that businesses functioning in society have a duty to support the growth of the economy, the social sector, and the environment in order to benefit society as a whole. Although there is no clear definition, the idea is that organisations ought to focus on more than just making money.

Investor returns and accounting returns are the two main categories under which general financial performance metrics can be divided. Investor returns should be measured from the perspective of the shareholders, according to the fundamental principle. Accounting returns put a lot of emphasis on how company earnings react to various managerial strategies. This study focuses on return on assets (ROA) and return on capital employed as two accounting-based performance measures (ROCE). The most comparable findings will be obtained using these two most used financial performance indicators. The techniques used to measure a firm's financial performance separately employ ROA and ROE. The ratio of net income after taxes to total assets is known as ROA, while the ratio of net income after taxes to outstanding shares is known as ROCE. Data was gathered from the yearly report on ROA and ROCE.

According to installed capacity and output, NTPC Ltd. is India's top power generation firm. The company generates and sells large amounts of electricity. The business is divided into two divisions: generation and other business. The company also engages in coal mining, oil and gas exploration, consulting, project management, and supervision. In all, India generated 28.6% of its power thanks to the Company. In the 2009 Forbes Global 2000 ranking of the largest companies in the world, they were rated as 317th.

Important Regulations under Companies Act,, 2013 relating to CSR Disclosures

The following restrictions are provided under Section 135 and Schedule VII of the Companies Act of 2013, as well as the stipulations of the Companies (Corporate Social Responsibility Policy) Rules of 2014. 2: Any private or public limited company with net value of 500 crores, turnover of 1000 crores, or net profit of 5 crores is required to devote at least 2% of its average net profit over the three most recent fiscal years to CSR activities. Any activity that is listed in Schedule VII of the 2013 Companies Act is regarded as a CSR activity.

CSR activities include the following:

1. Eradicating hunger, poverty, and malnutrition, encouraging healthcare, particularly preventative care, and sanitation, including participation in the Swachh Bharat Kosh initiative, which was established by the Central Government to promote cleanliness and make safe drinking water available.
2. promoting education, including special education, employment-enhancing vocational skills, particularly among young people, women, the elderly, and people with disabilities, as well as projects to improve livelihood
3. the establishment of old age homes, day care centers, and other facilities for older residents, the promotion of gender equality, the empowerment of women, homes and hostels for women and orphans, and steps to lessen the disparities experienced by socially and economically disadvantaged groups
4. ensuring ecological sustainability, ecological balance, animal welfare, agro forestry, resource conservation, soil, air, and water quality maintenance, as well as contributing to the Clean Ganga Fund established by the Central Government for Ganga River rejuvenation

5. Protection of national art, architecture, and culture, including the renovation of historically significant structures and pieces of art, the establishment of public libraries, and the encouragement and growth of traditional crafts and arts.
6. Promotional training for local sports, national sports, Paralympics sports, and Olympic sports
7. project for rural development

Reviews of Literature

Numerous academics have investigated capital structure from various angles and settings.

Ankita Patel (2016) attempted to examine the CSR initiatives of top Indian commercial banks and compare CSR spending between the years 2009–10 and 2015–16 in her research piece, "Corporate Social Responsibility: A Comparative Study of SBI and ICICI in India." The results show that SBI spends a higher percentage of its profit after taxes on CSR than ICICI does, yet both banks made the biggest contributions in the fiscal year 2015–16. SBI expects to spend more on corporate social responsibility in 2016–17 than ICICI.

In their article "Impact of Corporate Social Responsibility on Financial Performance of Indian Commercial Banks - An Analysis," Rajnish Yadav and Dr. F. B. Singh (2016) noted that while CSR had a negligible impact on net profit in public sector banks, it had a significant positive impact on profit in private sector banks.

In this article, Mrs. Swapna Shetty and Dr. Molly S Chaudhuri (2018) examine the connection between CSR and financial performance metrics including net profit, ROA, ROE, and EPS of 10 FMCG companies.

The findings show a strong correlation between CSR and net profit, a weak correlation between CSR and return on assets, and a negative correlation between CSR and EPS and return on equity.

In their paper "Comparative study of Corporate Social Responsibility in Selected Public and Private Sector Banks" published in 2016, Sharma and Agarwal assess the CSR practises of a number of Indian public and private sector banks. The survey found that while some banks are making an attempt to implement CSR, they are not allocating their 2% profit share to this cause.

This essay examines the relationship between corporate social responsibility (CSR) and the financial performance of Indian businesses, using return on assets and return on capital employed as the dependent variables and CSR as the independent variable. The study's secondary data spans the years 2013–2014 to 2017–2018.

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Objectives of the Study:

The following objectives are specific to the study's subject matter.

1. To determine how corporate social responsibility affects revenue
2. To examine the connection between NTPC Ltd. profitability and corporate social responsibility.

Hypotheses of the study

For the investigation, the following hypotheses were developed.

1. H01: ROTA is unaffected by CSR.
2. H02: ROCE is unaffected by CSR.

Research Methodology:

Secondary data are the fundamental foundation of the current study. The focus of the study is NTPC LTD. A variety of statistical approaches, including correlation and regression using SPSS, have been used to evaluate the data. The data was gathered for the analysis from a variety of sources, including the company's (NTPC) annual reports for the five years between 2013–14 and 2017–18. Profitability ratios like ROTA and ROCE are employed as independent variables, and the CSR is used as a dependent variable.

Limitation of the study

1. Secondary data sources provide the foundation of the investigation.
2. Five years' worth of data for NTPC Ltd. have been examined, however the outcomes might not be suitable in the long run.
3. The sole consideration for return on investment is net profit

Return on Total Assets

The shareholders' and management's primary criterion for making investment decisions is this ratio. It displays the rate of return on the firm's invested resources. One definition of investment is investment in assets, while another is investment as capital utilised. Return on Total Assets is one of these concepts. Investment is used here to represent all assets.

Return on Total Assets = $\frac{NetProfit\ (aftertax\ )\ X\ 100}{TotalAssets}$

Return on Capital Employed

Ratio indicates the efficiency and profitability of a company's capital investment.

CSR and Financial Parameters Descriptive Statistics:

Should always be more than the rate at the company borrows. Otherwise any increase in borrowing will reduce shareholders earnings.

Return on Capital Employed = $ROCE = \frac{EBIT\ (Earnings\ Before\ Interest\ and\ Tax)}{Capital\ Employed}$

Analysis of Data

Statistical analysis of data shows the following results:-

Descriptive Statistics

		Range	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Corporate social responsibility	7	242.36	49.44	291.80	181.9343	96.85988
Return on Total Asset	7	3.92	3.97	7.89	5.5414	1.43027
Return on capital Employed	7	5.95	9.75	15.70	12.1529	1.96066
Net Profit	7	3395.66	9223.73	12619.39	10515.2500	1134.90777

Source: Annual Reports of the NTPC under Study the descriptive statistics show that over

The period under study, the profitability ratios measured by Return on Total Assets and Return on Capital Employed averaged 5.54%, 12.15% respectively.

Corporate Social Responsibility and Return on Assets

181.9343. The maximum and minimum values for CSR indicate that CSR composition varies substantially in the NTPC. But the standard deviation of Net Profit is also varying substantially in the composition.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.915[a]	.838	.805	.63123
a. Predictors: (Constant), Corporate social responsibility				

This Table provides the *R* and *R* values.The *R* value represents the simple correlation and is 0.915 (the "R" Column), which indicates a high degree

Dependent variable, Return on Assets (ROA), can be explained by the independent variable, CSR spending. In this case, 83.8% can be explained, whichis very large.

of correlation. The *R* value (the **"R Square"** column)

Indicates as to what an extent the total variation in the

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.282	1	10.282	25.804	.004[b]
	Residual	1.992	5	.398		
	Total	12.274	6			
a. Dependent Variable: Return on Total Asset						
b. Predictors: (Constant), Corporate social responsibility						

This Table indicates that the regression model predicts the dependent variable significantly well. Here, *p* value which is less than 0.05, indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	8.000	.540		14.825	.000
1	Corporate social responsibility	-.014	.003	-.915	-5.080	.004

a. Dependent Variable: Return on Total Asset

The Coefficients table provides the necessary information to predict Return on Assets from CSR Expenditure, as well as determine whether income contributes statistically significantly to the model (by looking at the "Sig." column). Furthermore, it can be used the values in the "B" column under the "Un standardized Coefficients" column, as shown below:

ROA= 8.00 -- .014(CSR)

2.1 Corporate Social Responsibility and Return on Capital Employed.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.820[a]	.672	.606	1.23054

a. Predictors: (Constant), Corporate social responsibility

This table provides the *R* and *R* values. The *R* value represents the simple correlation and is 0.820(the "R" Column), which indicates a high degree of

dependent variable, Return on Capital Employed(ROCE), can be explained by the independent variable, CSR spending. In this case, 67.2% can be explained, which is very large.

correlation. The *R* value (the **"R Square"** column)

indicates as to what an extent the total variation in the

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	15.494	1	15.494	10.232	.024[b]
1	Residual	7.571	5	1.514		
	Total	23.065	6			

a. Dependent Variable: Return on capital Employed

Predictors: Corporate social responsibilityThis Table indicates that the regression Model predicts the dependent variable significantly well. Here, *p* value which is less than 0.05, indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	15.171	1.052		14.421	.000
1	Corporate social responsibility	-.017	.005	-.820	-3.199	.024

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a. Dependent Variable: Return on capital Employed the Coefficients Table provides the necessary information to predict Return on Capital Employed from CSR Expenditure, as well as determine whether ROCE contributes statistically significant to the model (by looking at the "Sig." column). Furthermore, it can be used the values in the"B" column under the "Un standardized Coefficients" column, as shown below

ROCE = 15.171—0.017(CSR)

Findings

The following are the study's key findings:

1. It has been noted that the composition has a significant impact on the standard deviation of net profit.
2. Return on Total Assets (ROTA) and Return on Capital Employed (ROCE) are closely related concepts in corporate social responsibility (CSR).
3. The value of R^2 demonstrates that CSR spending accounts for 82.0% of the influence on profitability, with the remaining 18% coming from other factors.

Conclusion

In this study, the relationship between NTPC Ltd.'s profitability and corporate social responsibility (CSR) in India will be examined. Due to improper CSR methods and inconsistent CSR investment, the company under examination is determined to have a substantial negative association between its CSR and ROTA and ROCE. They disregard the requirement of the Companies Act of 2013 that CSR expenditures be equal to 2% of net earnings on average over the previous three years. Thus, both of the considered null hypotheses are disproved. It has been noted that CSR has an impact on profitability. It is astonishing that an organisation with the CSR disinterest of NTPC. observed that CSR affects the profitability. It is surprising that acompany like NTPC has such apathy towards CSR.

Suggestions

The following ideas for improvement can be made:

1. The data collection period is only five years. Data might be gathered over a very long period of time in order to produce accurate results and a thorough analysis.

2. Since CSR spending results in utopian returns and has a detrimental impact on the firm's profitability, CSR must be incorporated into the strategic plans of the company in order for it to succeed in the long run.

3. There are other performance indicators such as spending in CSR, which should be observed the Companies Act, 2013, CSR disclosures, however the study only utilises two performance measures such as Return on Total Assets (ROA) and Return on Capital Employed (ROCE).

4. Non-financial factors can be taken into account to learn how people feel about CSR expenditure and how it affects the company's performance as a whole.

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