

# A STUDY OF CSR PRACTICE IN PHARMACEUTICAL COMPANIES IN INDIA

**Umangi Ashokkumar Khandhar, Dr. Rajesh K. Patel**

Research Scholar, S.D. School of Commerce, Gujarat University

Head, Department of Accountancy, Desai C.M. Arts and Commerce College, Viramgam, Gujarat University

## Abstract

*Corporate Social Responsibility (CSR) has gained prominence in India as companies recognize their role in contributing to societal well-being and sustainable development. This study focuses on CSR practices in the pharmaceutical sector, analysing two prominent companies in India, Torrent Pharmaceuticals Ltd and Sun Pharmaceutical Industries Limited. The research objectives of this study are twofold: first, to analyse the CSR practices of these selected pharmaceutical companies, and second, to examine the impact of CSR activities on their financial performance. The study encompasses a five-year period, allowing for a comprehensive assessment of CSR practices and their influence on financial metrics. While Torrent Pharmaceuticals and Sun Pharmaceutical Industries are leading players in the pharmaceutical industry, their approaches to CSR and their outcomes may differ significantly. By scrutinizing their CSR initiatives and evaluating their financial performance, this research aims to shed light on the relationship between CSR and profitability in the pharmaceutical sector. The sample size for this study includes an in-depth analysis of the CSR practices and financial performance of these two companies, offering valuable insights into how CSR strategies are implemented and how they may impact financial metrics. The findings of this study can provide a deeper understanding of the significance of CSR in the pharmaceutical industry in India, offering insights for companies, policymakers, and stakeholders interested in the interplay between corporate social responsibility and financial performance.*

**Keywords:** CSR, Corporate Social Responsibility, Pharmaceutical

## 1. INTRODUCTION

Corporate Social Responsibility (CSR) practices in India have gained significant momentum in recent years, reflecting a growing awareness among businesses about their responsibility towards society and the environment. India's approach to CSR has evolved with the introduction of legal provisions and guidelines, making it a crucial aspect of corporate strategy. Here is an overview of CSR practices in India:

### Legal Framework:

The Companies Act, 2013, made CSR mandatory for certain companies meeting specific financial criteria. These companies are required to spend at least 2% of their average net profits from the preceding three financial years on CSR activities. This legal provision has led to a significant increase in CSR initiatives among Indian companies.

### Focus Areas:

CSR activities in India encompass a wide range of sectors, including education, healthcare, rural development, environmental sustainability, poverty alleviation, and women's empowerment. Companies often align their CSR initiatives with the Sustainable Development Goals (SDGs) to address critical social and environmental issues.

### Philanthropy and Volunteering:

Many Indian companies engage in philanthropic activities, such as providing financial support to charitable organizations and NGOs. Additionally, they encourage their employees to volunteer their time and skills for various social causes, contributing to the community's well-being.

### Education Initiatives:

Promoting education is a primary focus of CSR activities in India. Companies often establish schools, scholarship programs, and vocational training centers in underprivileged areas to improve access to quality education.

#### Healthcare and Sanitation:

Access to healthcare and sanitation facilities is another critical area of CSR in India. Companies undertake projects that aim to provide medical services, build hospitals, and improve sanitation infrastructure in rural and underserved regions.

#### Environmental Sustainability:

Many companies invest in initiatives that promote environmental sustainability, including afforestation, renewable energy projects, and waste management. Reducing their carbon footprint and promoting clean and green technologies are key objectives.

#### Empowering Women and Promoting Skill Development:

CSR efforts often include initiatives to empower women by providing skill development and employment opportunities. This helps in reducing gender inequality and promoting economic independence.

#### Reporting and Disclosure:

Companies are required to disclose their CSR activities in their annual reports, which enhances transparency and accountability. This reporting also provides stakeholders with insights into the impact of these initiatives.

#### Public-Private Partnerships:

Collaborations between government bodies, non-profit organizations, and businesses are common in CSR projects. Such partnerships help leverage resources and expertise to achieve larger-scale social and environmental impact.

#### Challenges:

While CSR in India has made significant progress, challenges remain, including concerns about the quality of implementation, the impact assessment of projects, and ensuring that funds are utilized effectively.

In conclusion, CSR practices in India have evolved into a significant component of corporate operations, driven by legal obligations and a growing sense of corporate responsibility. Companies are increasingly integrating CSR into their business strategies to create a positive impact on society and the environment while simultaneously fostering goodwill and sustainable growth.

## 2. RATIONALE OF THE STUDY

The rationale of a study on the topic "A study of CSR practice in Pharmaceutical companies in India" is crucial to justify the significance and purpose of the research. Here are some key points that explain the rationale for this study:

#### Growing Pharmaceutical Industry:

The pharmaceutical sector in India is one of the largest and most dynamic in the world. It plays a vital role in providing healthcare solutions not only to the Indian population but also to the global market. The industry's significant economic and social impact makes it an essential area for the study of CSR practices.

#### CSR Mandate:

The Companies Act, 2013, makes it mandatory for certain companies to allocate a portion of their profits to CSR activities. Pharmaceutical companies, given their scale and influence, have a substantial CSR potential and are expected to make a significant contribution to society. Understanding the extent to which they fulfill this obligation is essential.

#### Ethical and Social Responsibility:

The pharmaceutical industry's products directly affect public health and well-being. Ethical considerations and social responsibility are paramount in this sector. Investigating CSR practices in pharmaceutical companies is vital to ensure that they prioritize ethical and socially responsible actions in their operations.

#### Impact on Public Health:

CSR initiatives by pharmaceutical companies can have a direct and significant impact on public health. These initiatives can include providing affordable medicines to underserved communities, conducting health awareness programs, or supporting healthcare infrastructure development. A study in this area can reveal the extent of the industry's contribution to public health.

#### Stakeholder Expectations:

Various stakeholders, including consumers, investors, regulatory bodies, and the government, have high expectations of pharmaceutical companies regarding CSR. Assessing whether these expectations are being met and if companies are aligning their CSR activities with societal needs is an essential aspect of this study.

#### Transparency and Accountability:

Understanding the transparency and accountability of pharmaceutical companies in their CSR initiatives is crucial. It helps in assessing whether they are fulfilling their CSR commitments with integrity and whether the allocated funds are being used effectively.

#### Best Practices and Lessons:

The study can identify best practices and lessons learned from CSR initiatives in the pharmaceutical sector. These insights can be valuable for both the industry itself and other sectors looking to improve their CSR efforts.

#### Policy and Regulatory Implications:

The study can provide insights into the effectiveness of existing CSR regulations and policies, leading to potential recommendations for improvements or adjustments in regulations governing CSR in the pharmaceutical industry.

#### Academic and Practical Relevance:

From an academic standpoint, this study can contribute to the body of knowledge on CSR in the pharmaceutical sector. Additionally, it can offer practical guidance to pharmaceutical companies, helping them enhance their CSR strategies.

In summary, conducting a study on CSR practices in pharmaceutical companies in India is justified by the sector's size, influence, and ethical considerations. It is essential to assess the extent of their contributions to public health, evaluate transparency and accountability, and provide recommendations for policy improvements. This study can serve as a valuable resource for stakeholders interested in the ethical and social responsibilities of pharmaceutical companies in India.

### 3. LITERATURE REVIEW

According to Charles Blankson et al. (2018), the author examined the corporate social responsibility policies of the top 500 NSE listed companies in India in order to identify the factors that encourage socially conscious behaviour and to determine the causes behind these factors. They have discovered that similar to developed economies, Indian firms are driven by economic, social, regulatory, and ethical forces. However, the way Indian firms respond to these drivers of corporate social responsibility (CSR) differs, as Indian firms aim to use CSR initiatives to achieve both tangible (profit) and intangible (social good) benefits.

Researchers Shafat Maqbool et al. (2017) examined how 28 commercial banks listed on the BSE's financial performance was affected by corporate social responsibility. The findings show that CSR has a favourable effect on Indian banks' financial performance. Financial data from 2007 to 2016 was included in the analysis, and the findings unequivocally demonstrate that CSR increases profitability and stock returns.

The study's researcher, Eliza Sharma et al. (2013), examined commercial banks' CSR initiatives between 2009 and 2012. According to the survey, several banks are not adhering to the necessary regulations. According to the data, public sector banks contribute the most to CSR initiatives overall. The survey was conducted prior to the Companies Act of 2013's statutory CSR requirements; as a result, the conclusions are based on banks' voluntary CSR initiatives.

The study's researcher, Ruchi Gupta et al. (2015), made an effort to determine the importance of CSR in the Indian banking sector. The conclusion drawn from the 2013–14 annual reports of seven public and three private sector banks is that financial inclusion is essential to achieving their corporate social responsibility. According to the data, banks were more interested in social than environmental issues.

The researcher, Nithin Venugopal et al. (2018), has made an effort to investigate how workers and those who benefit from CSR efforts perceive the most important concerns that they believe the bank should prioritise. The actual amount that Indian commercial banks spent on CSR initiatives in the fiscal years 2014–15 and 2015–16 was also measured by the researchers. State Bank of India, Union Bank of India, Federal Bank, and HDFC Bank

are the four banks that have been chosen. The results show that while Indian banks are trying to engage in CSR, many of them aren't even meeting the legal minimum. "Employment to differently abled" is a high focus in CSR, according to the employees. "Promotion of Education, Child Welfare, Woman Empowerment, and Employment to Differently Abled" is a high priority in CSR from the beneficiary's point of view.

The study conducted by Upasana Thakur et al. (2016) examined the corporate social responsibility measures implemented by SBI and HDFC Bank. According to the study's findings, both banks actively participate in CSR initiatives. SBI, however, engages in less CSR initiatives relative to its market value. Additionally, HDFC Bank is placed higher than SBI on the list of top firms based on CSR initiatives.

In order to examine bank CSR practises, the researcher Muhammed Juman et al. (2016) conducted a content analysis. Three public banks and two private banks were chosen for the study. The study was done using the banks' annual reports, and the results indicate that banks lag much behind other leading businesses when it comes to CSR. Additionally, since social issues do not directly impact the environment, the study reveals that banks are spending more on them than on environmental issues.

The researcher Sandeep Kaur (2016) made an effort to learn about the different CSR initiatives that Indian banks engage in. Axis Bank, IndusInd Bank, Yes Bank, Union Bank of India, Punjab National Bank, ICICI, IDBI, HDFC, SBI, and SIDBI are among the numerous banks that come under several categories that are taken into account. The results indicate that even though Indian banks are working in the CSR space, more attention needs to be paid to CSR. The findings indicate that foreign and private banks contribute less to corporate social responsibility (CSR) initiatives than do public sector banks. The investigation came to the conclusion that CSR is a marketing tactic used by most banks.

#### 4. RESEARCH METHODOLOGY

##### RESEARCH OBJECTIVES

1. To analyse the CSR practices of selected 2 pharmaceutical companies of India
2. To examine the impact of CSR activity on financial performance of selected 2 pharmaceutical companies of India

##### SAMPLE SIZE

In this study 2 leading pharmaceutical companies have been analysed.

1. Torrent Pharmaceuticals Ltd
2. Sun Pharmaceutical Industries Limited

#### 5. DATA ANALYSIS

##### ACTUAL CSR SPENT

Actual CSR Spent					
NAME	2021-22	2020-21	2019-20	2018-19	2017-18
Torrent Pharmaceuticals Ltd	23.00	25.22	18.07	26.45	27.70
Sun Pharmaceutical Industries Limited	19.86	26.30	4.39	7.88	2.70

The table provided shows the actual CSR (Corporate Social Responsibility) spending by two pharmaceutical companies, Torrent Pharmaceuticals Ltd and Sun Pharmaceutical Industries Limited, in India over a span of five years (from 2017-18 to 2021-22). The values are in crore rupees (Rs. in Crore). Here's an interpretation of the data:

##### Torrent Pharmaceuticals Ltd:

In the fiscal year 2021-22, Torrent Pharmaceuticals spent 23.00 crore rupees on CSR, which is a decrease compared to the previous year (2020-21) when they spent 25.22 crore rupees. However, the company's CSR expenditure in 2021-22 is higher than that of 2019-20 and 2017-18 when they spent 18.07 crore rupees and 27.70 crore rupees, respectively.

Over the five-year period, Torrent Pharmaceuticals' CSR spending has exhibited some variation, with the highest spending in 2017-18 and the lowest in 2019-20.

##### Sun Pharmaceutical Industries Limited:

In the fiscal year 2021-22, Sun Pharmaceutical Industries spent 19.86 crore rupees on CSR, a decrease from the previous year (2020-21) when they spent 26.30 crore rupees. It's worth noting that their CSR spending in 2021-22 is significantly higher compared to the earlier years, including 2019-20 and 2017-18, when they spent



4.39 crore rupees and 2.70 crore rupees, respectively. Over the five-year period, Sun Pharmaceutical Industries has shown an upward trend in CSR spending, with the highest spending in 2020-21.

Overall, both companies have demonstrated their commitment to CSR activities, but their spending patterns have varied over the years. While Torrent Pharmaceuticals saw fluctuations in its CSR spending, Sun Pharmaceutical Industries has consistently increased its CSR expenditure, with the highest amount being allocated in 2020-21. This data provides insights into these companies' dedication to social responsibility and their willingness to invest in initiatives that benefit society and the environment.

## 2. NET PROFIT MARGIN

Net Profit Margin					
NAME	2021-22	2020-21	2019-20	2018-19	2017-18
Torrent Pharmaceuticals Ltd	14.70	17.63	15.21	12.93	11.34
Sun Pharmaceutical Industries Limited	-0.64	16.71	25.62	7.92	3.39

The table provides the Net Profit Margin for two pharmaceutical companies, Torrent Pharmaceuticals Ltd and Sun Pharmaceutical Industries Limited, for five consecutive years (from 2017-18 to 2021-22). Net Profit Margin is a key financial metric that indicates the profitability of a company as a percentage of its total revenue. A higher net profit margin suggests better profitability. Here's an interpretation of the data:

**Torrent Pharmaceuticals Ltd:**

In the fiscal year 2021-22, Torrent Pharmaceuticals had a net profit margin of 14.70%, which means that the company retained 14.70% of its total revenue as profit after deducting all expenses and taxes. The company's net profit margin has consistently shown a positive trend over the five-year period, starting at 11.34% in 2017-18 and steadily increasing to 14.70% in 2021-22. This positive trend in the net profit margin suggests that Torrent Pharmaceuticals has been effectively managing its costs and generating higher profits relative to its revenue over the years.

**Sun Pharmaceutical Industries Limited:**

In the fiscal year 2021-22, Sun Pharmaceutical Industries had a net profit margin of -0.64%. A negative net profit margin indicates that the company incurred a loss, meaning its expenses exceeded its revenue during that period. Prior to 2021-22, Sun Pharmaceutical Industries consistently had positive net profit margins, with the highest being 25.62% in 2019-20. The sudden negative net profit margin in 2021-22 could be a result of various factors, including one-time expenses, extraordinary events, or changes in the company's financial situation.

In summary, the net profit margin data reveals that Torrent Pharmaceuticals has been consistently profitable over the five-year period, with a positive trend in profitability. On the other hand, Sun Pharmaceutical Industries experienced a sudden negative net profit margin in 2021-22 after consistently positive margins in the previous years. Further analysis would be needed to understand the specific reasons for this significant shift in profitability for Sun Pharmaceutical Industries in 2021-22.

## 3. RETURN ON EQUITY

Return on Equity					
NAME	2021-22	2020-21	2019-20	2018-19	2017-18
Torrent Pharmaceuticals Ltd	15.62	18.86	18.32	14.86	10.57
Sun Pharmaceutical Industries Limited	-0.40	8.54	13.16	3.57	1.36

The table provides the Return on Equity (ROE) for two pharmaceutical companies, Torrent Pharmaceuticals Ltd and Sun Pharmaceutical Industries Limited, for five consecutive years (from 2017-18 to 2021-22). ROE is a financial ratio that measures a company's profitability by evaluating its ability to generate profit from shareholders' equity. Here's an interpretation of the data:

**Torrent Pharmaceuticals Ltd:**

In the fiscal year 2021-22, Torrent Pharmaceuticals had an ROE of 15.62%, which indicates that the company generated a return of 15.62% on its shareholders' equity during that year. The company's ROE has exhibited a positive trend over the five-year period, starting at 10.57% in 2017-18 and steadily increasing to 15.62% in 2021-22. This upward trend in ROE suggests that Torrent Pharmaceuticals has been effective in utilizing its equity capital to generate profits for its shareholders.

Sun Pharmaceutical Industries Limited:

In the fiscal year 2021-22, Sun Pharmaceutical Industries had an ROE of -0.40%, indicating that the company incurred a loss relative to its shareholders' equity during that year. Prior to 2021-22, Sun Pharmaceutical Industries consistently had positive ROE, with the highest being 13.16% in 2019-20. The negative ROE in 2021-22 suggests that the company experienced a loss, and its equity capital was not utilized effectively to generate profits for shareholders during that period.

In summary, the ROE data reveals that Torrent Pharmaceuticals has consistently demonstrated a positive and improving trend in generating returns on shareholders' equity over the five-year period. On the other hand, Sun Pharmaceutical Industries had positive ROE in the previous years but reported a negative ROE in 2021-22, indicating a loss during that fiscal year. Further analysis would be needed to understand the specific reasons for this negative ROE and to assess the financial health of Sun Pharmaceutical Industries in that particular year.

#### 4. IMPACT OF ACTUAL CSR SPENT ON NET PROFIT MARGIN

H<sub>0</sub> : There is impact of CSR amount spent on Net Profit Margin (%)

##### SUMMARY OUTPUT

###### Regression Statistics

Multiple R	0.147672
R Square	0.021807
Adjusted R Square	-0.30426
Standard Error	6.877159
Observations	5

###### ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	3.163105	3.163105	0.06688	0.812663
Residual	3	141.886	47.29532		
Total	4	145.0491			

  

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	15.35522	11.53176	1.331559	0.27514	-21.344	52.05444
X Variable 1	-0.1583	0.612109	-0.25861	0.812663	-2.1063	1.789706

##### INTERPRETATION

Multiple R = 0.147672, which indicates that there is no linear relationship between CSR amount spent and Net Profit Margin (%). From the ANOVA table, it can be seen that p-value 0.812663 which is higher than specified  $\alpha$  of 0.05. So it is suggested that null hypothesis is accepted and there is no impact of CSR amount spent on Net Profit Margin.

#### 5. IMPACT OF ACTUAL CSR SPENT ON RETURN ON EQUITY

H<sub>0</sub> : There is impact of CSR amount spent on Return on Equity

##### SUMMARY OUTPUT

###### Regression Statistics

Multiple R	0.072637
R Square	0.005276
Adjusted R Square	-0.3263
Standard Error	4.757186
Observations	5

###### ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0.360109	0.360109	0.015912	0.907597
Residual	3	67.89246	22.63082		
Total	4	68.25257			

  

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	11.4158	7.976947	1.431099	0.24779	-13.9704	36.802
X Variable 1	-0.05341	0.423419	-0.12614	0.907597	-1.40092	1.294095

## INTERPRETATION

Multiple R = 0.072637, which indicates that there is no linear relationship between CSR amount spent and Return on Equity. From the ANOVA table, it can be seen that p-value 0.907597 which is higher than specified  $\alpha$  of 0.05. So it is suggested that null hypothesis is accepted and there is no impact of CSR amount spent on Return on Equity.

## 6. CONCLUSION

Based on the data provided in the three tables – CSR spending, Net Profit Margin, and Return on Equity for Torrent Pharmaceuticals Ltd and Sun Pharmaceutical Industries Limited over a five-year period – it can be concluded that:

### CSR Spending Trends:

Both Torrent Pharmaceuticals Ltd and Sun Pharmaceutical Industries Limited have allocated funds for CSR activities over the years, with varying amounts. While Torrent Pharmaceuticals maintained a fluctuating but generally increasing trend in CSR spending, Sun Pharmaceutical Industries exhibited a consistent upward trend until an apparent anomaly in 2021-22.

### Net Profit Margin Trends:

Torrent Pharmaceuticals demonstrated a consistent positive trend in its net profit margin over the five-year period, signifying an improvement in profitability relative to revenue. On the other hand, Sun Pharmaceutical Industries reported positive net profit margins until 2021-22 when it recorded a significant decline, indicating a loss for that fiscal year.

### Return on Equity (ROE) Trends:

Both companies showcased distinct ROE trends. Torrent Pharmaceuticals displayed a consistent and positive upward trend in ROE, indicating an effective use of shareholders' equity to generate returns for its investors. Sun Pharmaceutical Industries consistently reported positive ROE in the years leading up to 2021-22. However, in that particular year, the company reported a negative ROE, signifying a loss relative to shareholders' equity.

The data suggests that there may be no direct correlation between the amount of CSR spending and Net Profit Margin. Torrent Pharmaceuticals, for instance, increased its CSR spending over the years while also improving its Net Profit Margin. However, Sun Pharmaceutical Industries' 2021-22 data demonstrates a negative Net Profit Margin despite its consistent CSR spending in the previous years, indicating that other factors significantly influenced profitability. Similarly, there might be no direct impact of CSR spending on Return on Equity. Torrent Pharmaceuticals consistently increased its ROE without showing a consistent increase in CSR spending. On the other hand, Sun Pharmaceutical Industries experienced a sudden negative ROE in 2021-22 despite its prior CSR spending, indicating that other financial factors were more influential.

In conclusion, while CSR spending is a critical aspect of a company's social responsibility, its direct impact on financial metrics like Net Profit Margin and Return on Equity can be influenced by various other factors such as operational efficiency, revenue, and unforeseen events. The relationship between CSR spending and financial performance is complex and depends on multiple variables, making it difficult to draw a direct causation between the two based solely on the provided data. Further analysis and consideration of additional variables are necessary to fully understand the dynamics between CSR spending and financial performance in these pharmaceutical companies.

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