Steel Company's Spend ₹20,000 Cr. on CSR

Companies Respond Positively to the Govt's Call for Community Development As Per Companies Act 2013

- Steelworld Research Team

With the passage of the Companies Act 2013, Indian businesses must now add corporate social responsibility (CSR) to their performance dashboards. Under this Act, any Indian company having a turnover of Rs. 10 billion (Rs. 1000 crore or approximately $161.3 million), or more, or a net worth of Rs. 5 billion (Rs. 500 crore or approximately $80.6 million) or more, or a net profit of Rs. 50 million (Rs. 5 crore or $8 million) or more, must spend 2 percent of its average net profit in the preceding three years on CSR initiatives. The law also applies to foreign companies doing business in India. The CSR Rules 2014 for implementing the new law came into effect on April 1, 2014. The Act lists out a set of activities eligible under CSR such as: promotion of education, eradication of extreme hunger and poverty, combating HIV-AIDS, malaria and other diseases, reducing child mortality and improving maternal health, employment enhancing vocational skills, and such other matters as may be prescribed in future.Businesses meeting the above-mentioned criteria must create a committee dedicated to undertaking CSR initiatives in areas spelled out by the government. Under this act, a company's board of directors will also need to play an active role in CSR initiatives, including identifying required activities, approving policy and disclosing details about the initiatives in board reports and on the company's website. Surplus funds from CSR projects cannot be designated as part of a company's profit. The Rules specifically exclude contributions or donations to political parties to be included under the definition of CSR.

Overall CSR spending is estimated to have touched the projected figure of Rs 20,000 crore as has been reported ever since the new law enacted in last April 2014 mandating companies to spend 2% of their profit on CSR. As the year draws close on this April 1, 2015 , in another two months, we will know the exact amount of spending. According to the insiders in the industry, the figure may not reach anywhere close to the projected Rs 20,000 crore. According to Indian Institute of Corporate Affairs, around 16,352 companies fall within the purview of Section 135 of the Companies Act. Around 20,000 crore in total will be spent by Corporates each year on CSR. Around 30,000 Directors of Boards will be directly involved. The CSR Roll Out also demands a large number of CSR Professionals. Nowhere in the world available are qualified CSR Professionals. We need 30,000 CSR Professionals in India . Hence Indian Institute of Corporate Affairs is offering a 9 months online training program. It was the world's first Professional Course being offered by us on CSR. The first batch of 200 trained CSR professionals will be out into the market this July, Bhaskar Chatterjee, DG & CEO of Indian Institute of Corporate Affairs(IICA), Govt of India informed. Currently there are approximately 3.3 million registered NGOs in India. Probably around ten lakh fully functional and ready to face implementation challenges are available. The average absorptive capacity of NGOs is around Rs 20 lakh annually. Hence, around 1,00,000 NGOs are required at the vert least to carry forward CSR agenda in the country.

Declining Steel Growth to Hit CSR Spend

Due to declining economic growth, the growth rate of India's steel industry, which contributes around 2.5-3.0 per cent to the economy, also fell from 8-9 per cent witnessed during the last 10 years to 2-3 per cent during the past 2-3 years. Although private consumption has shown signs of revival, it is at a snail's pace, with growth averaging 6.3 per cent during fiscals 2013 to 2015. The same cannot be said for investments. The investment pick-up in the economy has been much slower, at 2.3 per cent, bringing down its share in GDP to 29.8 per cent in fiscal 2015 from 33.6 per cent in fiscal 2012. During the past couple of years, sticky, high inflation – around 10 per cent - and poor income visibility hindered consumption and policy uncertainty led to delays in project clearances. Adding on to this agony were lethargic demand conditions and huge existing unutilised capacities in the manufacturing sector, which reined back fresh investments.Now, however, there appears to be a glimmer of light at the end of the tunnel. Declining steel sector growth may affect spending on corporate social responsibility and community causes.

The key factors that caused the decline in private consumption in the recent past have all begun to show signs of a turnaround. CRISIL Research estimates that household spending power will increase by Rs 1.4 trillion in fiscal 2016 (compared with nearly Rs 509 billion in

MECON's CSR Activities are Exemplary : An School Van Donated to St. Michael School for the Blind

fiscal 2015) because of low fuel prices, benign food inflation and steadily improving income growth. Savings due to lower fuel prices alone will be Rs 300 billion, while on food it will be more than thrice that at Rs 1.1 trillion. Measured in nominal terms, the increase in private consumption is close to 2 per cent of the annual spending of households.

This is more likely to be spent on discretionary items than being salted away in formal savings because the rise in real returns would be marginal given that nominal interest rates are on the decline. The happy convergence of these tailwinds, we believe, will provide India's economy with a reasonably good consumption kicker. Already, consumer confidence is gradually on the mend due to these above-mentioned factors coupled with the tailwinds from lower interest rates.

The new sense of optimism among both consumers and the industry has also been prompted by two other equally crucial factors: Decisive steps by the government at the Centre to debottleneck decision-making, and the unexpected windfall from the slump in crude oil prices. Yet, corporate India still remains cautious on investments. Despite a minor scale-up in fixed capital investment growth in 2014-15, there has been no notable turn in the capital expenditure (capex) or investment cycle. The private sector is still bedevilled by high leverage, raw material challenges, poor in returns on investment and large unutilised capacities. So, until there is great improvement in demand visibility, private industry might prefer to remain in wait and watch mode.

According to a survey conducted by the apex industry lobby FICCI and leading rating firm Crisil, planned capex by the private companies surveyed was likely to decline by 11 per cent in 2015-16. So, while public sector entities indicated a marginal uptick in their capex plans (by 3 per cent), a game-changing recovery in aggregate capital investments is expected to happen only after 2015-16. While infrastructure and energy sectors will see a small increase in capex, it will be more than offset by a decline in the manufacturing sector, according to the survey.

The investment outlook for fiscal 2016 will, therefore, pivot around increased public investments. Against this backdrop, the ability of the government to kick-start investments through fiscal measures – especially given the additional elbow room afforded by falling crude prices – is crucial. It is to rejuvenate the investment process, revitalise the economy and boost job creation in manufacturing that the NDA government at the Centre unveiled the 'Make in India' initiative. Hand in hand with improving consumption, the 'Make in India' initiative has the potential to turn the dream of 25 per cent manufacturing in GDP into a reality.

India on Gobal Scale

Going forward, steel demand in China is expected to moderate as the government is expected to take numerous measures to control asset inflation. A gradual withdrawal of the stimulus package and efforts to transform the economy from an investment-driven to a consumption-driven one will act as a drag on steel consumption. Accordingly, demand in China is expected to grow by a mere 1-2 per cent in next 5 years vis-à-vis double digit growth in the past. Consequently, global steel demand is expected to grow by 2.0-2.5 per cent over the next 5 years compared with 5-6 per cent in the previous 5 years. The China slowdown will give India an opportunity to emulate China's progress over the last few decades and emerge as a major global steel player in its own right. It is here that the 'Make in India' initiative can make a huge difference. One reason why India's steel consumption has been erratic and perhaps not seen sustained growth – at the pace seen in China, for instance – is the stagnancy in manufacturing. Despite a rapidly growing service sector, India's manufacturing sector has stagnated at around 15 per cent over the past 30 years now. By contrast, in China, the sector contributes about 34 per cent to that country's GDP. If anything, the inability to spur manufacturing in India reflects larger policy failures.

Manufacturing Policy to Support CSR from Steel

The government's national manufacturing

Staff of an IT Firm at a Craft Session with Special Children. Tatas' Charitable policy under its 'Make in India' initiative seeks to narrow the growing gap between India and many other economies in the sectoral share of manufacturing in GDP and low productivity of the sector. It is the outcome of a realisation that the country, despite embarking on path-breaking reforms in 1991, has not been able to fully leverage the opportunities provided by the dynamics of globalisation. The policy recognises that boosting the global competitiveness of India's manufacturing sector is crucial for the country's long term-growth and also signals the government's intent to usher in a quantum jump in employment in the organised sector.

The aim of the policy is to lift the share of manufacturing in GDP to 25 per cent and create 100 million jobs in the sector by 2022. For this purpose, it addresses areas of regulation, infrastructure, skill development, technology, availability of finance, exit mechanism and many other pertinent factors related to the growth of manufacturing. Hitherto, insufficient physical infrastructure, a complex regulatory environment and inadequate availability of skilled manpower have constrained the growth of manufacturing in the country. Therefore, the policy encompasses a vast scope as it seeks to unleash the multiplier effect that manufacturing will have on allied sectors. This is significant in the context of the fact that India has a favourable demographic profile with over 60 per cent of population in the working age group of 15-59 years. For a country with such a large young population, providing livelihood to all is an onerous task.

Another important milestone would be foreign direct investment (FDI) in critical sectors such as defence, construction, railways, etc. Given the strained financial conditions of many Indian corporates coupled with limited access to technology, FDI can do the job of a tonic to improve technical prowess and boost cost-effective, technically proven, large-scale manufacturing facilities in India. All of this holds strong possibility given the strong advantage that the country has in many areas. India has a huge potential consumption base (total population of 1.2 billion) due to the growing middle class and rising aspirations of people both in urban as well as rural areas. Equally positive is the strong base of the workforce coupled with high penetration of education and the continuous thrust by the government on skill development. Additionally, the country holds large, good quality mineral resources with a cost-effective labour base thereby providing a competitive cost structure across multiple product segments. The development of a strong manufacturing base over the long term coupled with a strong policy push and infrastructure development will tremendously enhance the potential for the Indian steel industry. A proper implementation of 'Make in India' coupled with aligned infrastructure development will boost steel demand growth 10-12 per cent during 2018-19 to 2024-25, reaching 160-180 million tonnes by 2024-25 with potential upside depending on the pace of reform implementation *(refer Chart 9)*. On the contrary, if the risk to these assumptions materialise, then steel demand will reach barely around 140-145 million tonnes during the period.

'The Joy of Being in School' Activities Organised by Essar Foundation and Akanksha.

Most of the capacity additions over the next 5 years will be through brownfield projects. Large players will dominate steel capacity additions during this period and a major part of this addition is expected to happen via the BOF route so the share of BOF technology is expected to increase in the coming years. Furthermore, many of the large players are planning to add capacities in the long product segment, which has traditionally been dominated by small non-integrated players and re-rollers. Thus, going forward, the steel industry's capacity creation will be large-scale, increasingly more cost-efficient and quality compliant.

STEEL CAPACITY (MILLION TONNES)

Financial Year	Crude Steel Capacity	Finished Steel Demand
2013-14	100	69
2018-19 (P)	134	94
2024-25 (P)	200-230	160-180

Source : Crisil Research

Building Strong Edge

Despite short-term concerns, the long-term story for the steel industry is still intact given the natural advantage that the country enjoys. India has a strong base of iron ore reserves and access to a huge, low-cost labour pool. Moreover, the governments at the Centre and in key states are increasing their focus on attracting industrial investment through various incentives. To create more opportunities for the steel industry, the government has set out plans for ultra mega steel projects (UMSP) with requisite regulatory support. Further, the government is giving a policy push to catalyse economic development. For this purpose, various policies are being streamlined to provide greater clarity in mining allocation, land acquisition, export promotion, etc.

At the same time, development of allied infrastructure is of paramount importance. For example, to produce 1 tonne of steel, material movement of 4.0-4.5 tonnes is required. Hence, it is imperative to build supporting logistic infrastructure for better and smooth functioning of this sector. The ongoing thrust on road development needs to be accompanied by a further thrust on port development targeting not only the movement of imported raw material but also export opportunities. For this purpose, plant sites should be strategically located keeping in mind factors such as resource availability, and logistic infrastructure for import and export. Another important aspect would be the adoption of technology. For large-scale, sustainable plant capacities, India needs to embrace best-in-class technologies. Some of the companies are

JSPL Organises Healthy Baby Show under CSR in Raigarh

adopting requisite technical know-how through strategic investors and joint ventures. This will enable domestic supply of quality material, leading to import substitution, and help in increasing exports in future. In the past, India has been a net importer of steel primarily owing to the lack of domestic availability of high grade steel and special steel products. But that is already changing. Some Indian steel manufacturers are spotting opportunities and focusing on improving their competencies in steel products that are currently imported in niche areas.

If India's steel industry has to capitalize on these looming opportunities, it needs to more than double its steel capacity, largely to capture rising domestic demand coupled with increasing export opportunity in the long term. Of course, the risks to this long-term supply scenario include the already discussed China slowdown, slowerthan- anticipated recovery of key global economies, and any adverse impact from developments in the global raw material market. On the domestic raw material front too, any further delay in resolving mining issues can significantly hurt the prospects of the steel industry, at least in the medium term.

Strong Production Base – Better CSR

With higher steel production base and strong infrastructure improvement, the profitability of steel producers is likely to improve. The Companies Act enacted in 2014 saw mandatory CSR provision. The Act makes it mandatory for companies meeting certain thresholds to spend 2% of its net profits in CSR. According to a FICCI study, about Rs 200 billion (roughly US$ 3.2billion) could be unlocked from a pool ofaround 16,000 companies towards CSRspending during 2014-2015 which may go even higher with increased profitability base. Steel and mining sector is set to contribute around a quarter of the estimated investment target.

Unlike a decade ago, businesses can now draw on the expertise of various stakeholders in a maturing CSR ecosystem. Startups in the field of education and healthcare can be leveraged to deliver cost-effective technological solutions to help scale CSR activities.

Organizations capable of providing specialized CSR advice to civil society organizations and businesses are now widely available.In-depth conversations with 30 senior leaders from companies and civil society organizations were conducted to understand the industry response to this changing CSR environment; this was complemented with a survey of 20 companies. These discussions highlighted a range of concrete challenges being faced by companies of various sizes. We found corporations having more questions than answers in key areas like CSR-partnerships, efficiency, scalability and CSR-impact.But at the same time, these discussions revealed the growing understanding within businesses towards leveraging CSR as a platform to initiate actions benefiting their business as well as the nation.

Companies' CSR Spends

Meanwhile, Tata Steel believes that a company should contribute to the communities in which it operates.As such Tata Steel spends 5-7% of its profit after tax on CSR initiatives, such as environmental sustainability and social development.Tata Steel's CSR policy focuses, social sustainability, healthcare initiatives, environmental sustainability, and inclusive growth.Tata Steel has invested Rs 660 crore on CSR during the financial year 2013-14 and Rs 1000 crore in the last three financial years.

Vedanta group owned alumina refinery at Lanjigarh, despite running at just about 30 per cent of its installed capacity on imported bauxite, continues to do a yeoman's service for the development of Kalahandi both economically and socially. The company has spent over Rs 175 crore on CSR in the past decade despite economic unviability of its operations.

The Company's CSR Policy is in line with the Group's approach to community programmes and are governed by two key considerations: the needs of the local people and the development plan in line with the UN Millennium Development Goals (UNMDG) and also the CSR National Voluntary Guidelines of the Ministry of Corporate Affairs, Government of India.

In order to manage both our community relationships and community investment programmes, every business of the Company has a dedicated team of Corporate Social responsibility. These individuals are crucial to driving and managing local engagement and act as a point of contact for community members. The key focus areas for CSR of the Company is in the area of health, nutrition, sanitation, education, sustainable livelihoods and women empowerment.

In line with the requirements of the Companies Act, 2013, the Board in their meeting held on March 29, 2014 has constituted a CSR Committee comprising of Mr. Naresh Chandra as Chairman of CSR Committee, Mr. Ravi Kant, Mr. Tom Albanese, CEO & Whole–Time Director and Mr. Tarun Jain, Whole–Time Director. The CSR Committee will decide the focus area of CSR Activities, budget and programmes to be undertaken and implemented by the respective businesses of the company.

During the year, on consolidated basis the Company has spent Rs. 173 Crore on CSR during FY 2013–14 and is looking forward to progressively increase the CSR expenditure in FY 2014–15. A detailed section on the CSR programmes being carried by your Company is mentioned in the section Business Responsibility Report (BRR) of the Annual Report.