# ASSESSMENT OF THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF THE PRIVATE BANKING

First Author: N.Chandru (Assistant Professor )
Dr.NGP Arts And Science College.
Coimbatore.

Second Author: R. Abinath,
Chithamalli (post) ,
Thiruvalluvar nagar ,
Needamangalam (TK),
Thiruvarur – 614404.

# THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF THE PRIVATE BANKING

Mr.N.CHANDRU M.Com (CA).,M.Phil.(Ph.D.) Assistant Professor
Department of Commerce, Dr.N.G.P. Arts and
Science College, Coimbatore
R. ABINATH , Third Year B.com., Dr.N.G.P. Arts
and Science College, Coimbatore

## INTRODUCTION

Corporate social responsibility initiatives in private banking can have both positive and negative impacts on financial performance. On the positive side, corporate social responsibility activities can enhance a bank's reputation, attract socially conscious investors, and strengthen customer loyalty. This can lead to increased deposits, higher fee income, and improved overall financial performance. Additionally, Corporate social responsibility efforts can help mitigate risks associated with environmental, social, and governance ESG factors, thereby reducing potential regulatory fines and operational costs. The implementation of Corporate social responsibility initiatives may entail initial investment costs and divert resources away from core banking activities, potentially impacting short-term profitability. Moreover, if Corporate social responsibility efforts are perceived as insincere or fail to align with stakeholders' values, they could harm the bank's reputation and result in decreased customer trust and investor confidence, ultimately affecting financial performance negatively. Corporate social responsibility necessitates the integration of social and environmental concerns by companies in their business operations to be interactions with their stakeholders. The contribution of financial institutions and banks to sustainable development is of greater importance, considering the vital role they play in financing the economic and developmental activities of the world. The Corporate social responsibility activities of banks should reflect their concern for human rights and environment. Reserve Bank of India senses the lack of adequate awareness on the issue in India. In this context the need for sustainable developmental efforts by financial institutions in India assumes urgency and banks, in particular, can help contribute to this effort by playing a meaningful role. RBI has notified banks on 20thDecember 2007 to put in place a suitable and appropriate plan of action towards helping the cause of sustainable development and wellbeing of the society, with the approval of their Boards.

Overall, the relationship between Corporate social responsibility and financial performance in private banking is complex and context-dependent. Successful integration of Corporate social responsibility into a bank's business strategy, genuine commitment to sustainability, and effective communication of Corporate social responsibility efforts are crucial factors that can influence the extent to which Corporate social responsibility positively impacts financial performance.

### 1.1.1 RESPONCIBILITIES OF PRIVATE BANKING :

Here is an overview of some key aspects:

**1. Enhanced Reputation and Brand Image:**

Private banks that actively engage in CSR initiatives tend to build a positive reputation and strong brand image. Customers are more inclined to trust and invest in institutions that demonstrate a commitment to social and environmental causes, leading to increased market share and customer loyalty.

**2. Risk Management:**

Corporate social responsibility practices can help mitigate various risks associated with environmental, social, and governance ESG factors. By proactively addressing issues such as climate change, human rights violations, and unethical business practices, private banks can minimize the likelihood of costly controversies, legal battles, and reputational damage.

**3. Access to Capital:**

Investors, particularly institutional investors and socially responsible investment SRI funds, increasingly consider Corporate social responsibility performance when making investment decisions. Private banks with strong Corporate social responsibility credentials are more likely to attract capital investment and enjoy lower borrowing costs, ultimately improving their financial performance.

**4. Employee Engagement and Productivity:**

Corporate social responsibility initiatives can positively impact employee morale, satisfaction, and productivity. Employees are more motivated to work for companies that align with their values and contribute to societal well-being. Moreover, a socially responsible work environment can attract top talent, reduce turnover rates, and enhance overall workforce performance.

**5. Cost Savings and Efficiency:**
Implementing sustainable practices can lead to significant cost savings and operational efficiencies for private banks. By reducing energy consumption, waste generation, and environmental impact, banks can lower overhead expenses, improve resource utilization, and achieve long-term financial sustainability.

**6. Regulatory Compliance and Long-Term Viability:**
Regulatory bodies are increasingly mandating Corporate social responsibility disclosure and compliance measures for financial institutions. By adhering to Corporate social responsibility standards and guidelines, private banks can avoid penalties, regulatory scrutiny, and legal liabilities, ensuring their long-term viability and financial stability.

**7. Community Development and Stakeholder Relations:**
Private banks have a responsibility to support the communities in which they operate. Through philanthropic initiatives, community development projects, and partnerships with non-profit organizations, banks can foster positive relationships with stakeholders, including customers, employees, regulators, and local communities, ultimately contributing to their financial success.

In conclusion, integrating Corporate social responsibility principles into their operations and decision-making processes can yield significant benefits for private banking institutions, ranging from enhanced reputation and brand loyalty to improved risk management, access to capital, employee engagement, cost savings, regulatory compliance, and long-term sustainability.

## 1.2 SCOPE OF THE STUDY

- To assess the relationship between corporate social responsibility Corporate social responsibility practices and the financial performance of private banks.
- Utilizing quantitative analysis, such as regression models, to analyse financial data and Corporate social responsibility metrics.
- Private banks from a specific region or country, chosen based on availability of data and relevance to the study.
- Financial performance metrics (e.g., return on assets, return on equity) as dependent variables, Corporate social responsibility indicators (e.g. Environmental initiatives, community development programs) as independent variables.

## 1.3 STATEMENT OF THE PROBLEM

The relationship between corporate social responsibility (Corporate social responsibility) initiatives and financial performance is a topic of considerable interest and debate. While some studies suggest a positive relationship between Corporate social responsibility and financial performance, others argue that Corporate social responsibility activities may not necessarily lead to improved financial outcomes.

- To what extent do private banks engage in Corporate social responsibility activities, and what are the typical areas of focus for these activities., environmental sustainability, social welfare, ethical investing.
- Is there a measurable impact of Corporate social responsibility activities on the financial performance of private banks, and if so, what are the key performance indicators that are influenced by Corporate social responsibility.
- What are the key drivers and barriers for private banks to engage in Corporate social responsibility activities, and how do these factors vary across different regions and bank sizes.

## 1.4 OBJECTIVE OF THE STUDY

The objectives of the study are:

- Evaluate the relationship between corporate social responsibility (Corporate social responsibility) and financial performance in private banking.
- Analyze the specific corporate social responsibility practices implemented by private banks.
- Investigate the financial metrics impacted by Corporate social responsibility activities in the private banking sector.

- Assess the overall effect of corporate social responsibility on the financial performance and reputation of private banks.

## 1.5 TOOLS USED

Ratios analysis.

- Demand Deposit Ratio
- Saving Deposit Ratio
- Net Interest Margin
- Credit Deposit Ratio
- Cost of Equity

**REVIEW OF LITERATURE**

A review of literature helps the researches to have a firsthand knowledge about the parallel work done by others. In order to have comprehensive understanding of the proposed study the following research studies have been made:

- Shroff FT (2023) in his paper, Modern Banking Technology, - Bank net Publications has given a summary of how Indian banking system has evolved over the year. The paper discusses some issues face by these systems. The author also gives examples of comparable banking system for other countries and the lesson learnt. Indian banking is at the threshold of the paradigm shift. The application of technology and product innovations is bringing about structure change in the Indian banking system.

- Madhavankutty (2023) concludes the banking system in India has attained enough maturity and is ready to address prudential management practices as comprehensively as possible, which an integral part of policy is making.Banking in India is poised to enter yet another phase of reforms once the door opens further to foreign players in 2022. This requires further improvement in technology management, human resource management and the ability to foresee rapid changes in the financial landscape and adopt quickly. At present, there is a huge hiatus between the top management earnings of state owned banks and private, as well as foreign banks. Banks have to lay down sound risk management strategies and internal capital adequacy assessment committees to ensure that they do not diverge from the prudential requirements.

**HISTORY AND GROWTH OF STUDY**

- Private Sector Banks refer to those banks where most of the capital is in private hands. In India, there are two types of private sector banks viz. Old Private Sector Banks and New Private Sector Banks.

- HDFC BANK
- AXIS BANK
- ICICI BANK
- KOTAK MAHINDRA BANK

**HDFC**

- As of my last update in January 2022, the CEO of HDFC Bank was Sashidhar Jagdishan. However, please note that executive positions like CEO can change over time due to various reasons such as retirement, appointments, or organizational restructuring.

- Therefore, for the most current and accurate information, I recommend checking the official website of HDFC Bank or reputable news sources. As of 1 June 2023, the bank's distribution network was at 8,344 branches and 19,727 ATMs across 3,811 cities. It has installed 430,000 POS terminals and issued 23.5 million (23.5 million) debit cards and 12 million (12 million) credit cards in FY 2017.

**PRODUCT OF SERVICE:**

HDFC Bank provides a number of products and services including wholesale banking, retail banking, treasury, auto loans, two-wheeler loans, personal loans, loans against property, consumer durable loan, lifestyle loan and credit cards. Along with this various digital products are Payzapp and SmartBUY.

**MERGERS AND ACQUISITIONS:**

HDFC Bank merged with Times Bank in February 2000. This was the first merger of two private banks in the New Generation private sector banks category. Times Bank was established by Bennett, Coleman and Co. Ltd., commonly known as The Times Group, India's largest media conglomerate. In 2008, Centurion Bank of Punjab (CBoP) was acquired by HDFC Bank. HDFC Bank's board approved the acquisition of CBoP for ₹95.10 billion in one of the largest mergers in the financial sector in India. In 2021, the bank acquired a 9.99% stake in FERBINE, an entity promoted by Tata Group, to operate a pan-India umbrella entity for retail payment systems, similar to the National Payments Corporation of India. In September 2021, the bank partnered with Paytm to launch a range of credit cards powered by Visa. On 4 April 2022, HDFC Bank announced a merger with the Housing Development Finance Corporation. Upon the completion of the merger, HDFC became the fourthlargest bank in the world by market capitalization. The effective date of the merger was set to be 1 July 2023. After the merger takes place, HDFC, a housing financing corporation, will transfer its home loan portfolio to HDFC Bank. Also, the bank is giving home financing company depositors the choice of either withdrawing their money or renewing their deposits with the private sector bank at the interest rate that the bank is currently offering.

**INVESTMENT :**

In March 2020, Housing Development Finance Corporation, parent company of HDFC Bank, made an investment of ₹10 billion in Yes Bank.As per the scheme of reconstruction of Yes Bank, 75% of the total investment by the corporation would be locked in for three years. On 14 March, Yes Bank allotted 100 crore shares of the face value of ₹2 each for consideration of ₹10 per share (including ₹8 premium) to the corporation, aggregating to 7.97 percent of the post-issue equity share capital of Yes Bank

**LISTINGS AND SHAREHOLDINS**

- HDFC Bank branch in Pune
- The equity shares of HDFC Bank are listed on the Bombay Stock Exchange and the National Stock Exchange of India.
- Its American depositary receipts are listed on the NYSE issued through JP Morgan Chase Bank.

**AS PER THE SHAREHOLDINGS PATTEN,**

| S.NO | SHARE HOLDERS(30thsep 2023) | SHARE HOLDING |
|---|---|---|
| **1.** | Promoter group (HDFC) | 0% |
| **2.** | Foreign institutional investor | 52.13% |
| **3.** | Individual shareholder | 13.66% |
| **4.** | Domestic institutional investor<br>Mutual fund<br>Insurance company | 30.6%<br>19.71%<br>8.74% |
| **5.** | NPS ( HDFC) Pension | 1.50 |
| **6.** | Central/state government | 0.001% |

**ANALYSIS AND INTERPRETATION**

The data that has been collected from various sources and presented in the form of materialistic information is known as research methodology. Research methodology is a systematic way to solve any research problem. It may be understood as a science of studying how research is done scientifically.

**RESEARCH DESIGN**

Research design is the arrangement of activities for the collection and analysis of the data in a manner that aims to combine relevance to the purpose with economy in procedure. The study carried out here is Analytical Research.

**SOURCE OF DATA**

The source of data for the study is collected from secondary sources i.e, the annual reports and balance sheet of private Banks for last five financial years.

- Collection of data through bank annual report, bank manuals and other relevant documents.
- By websites, text books and journals.

**PERIOD OF STUDY**

- The period of study covers only for 3 months from February 2024- April 2024.
- The period of study undertaken in the project is only 5 years.

**RATIO ANALYSIS**

**1. DEMAND DEPOSIT RATIO**

- The sum of money that is given to a bank but it can be withdrawn as per the requirement of the depositor. Amounts that are lying in the savings and current accounts are known as demand deposits because they can be used at any point of time.

**Formula**

$$\text{Demand Deposit Ratio} = \frac{\text{Demand Deposit}}{\text{Total Deposit}}$$

**TABLE NO: 1**
**TABLE SHOWING DEMAND DEPOSIT RATIO**

| Year | Demand Deposit (in Crores) | Total Deposit (in Crores) | Ratio % |
|---|---|---|---|
| 2019-2020 | 34,200 | 36,049.29 | 0.948 |
| 2020-2021 | 40,020 | 42,988.45 | 0.930 |
| 2021-2022 | 43,210 | 48,934.73 | 0.883 |
| 2022-2023 | 52,300 | 57,611.17 | 0.907 |
| 2023-2024 | 56,909 | 59,729.04 | 0.952 |

Source: Secondary data

**INTERPRETATION**

- The above table reveals that the demand deposit ratio of Private banks. The ratio shows a fluctuating trend during the study period. According to the above table the bank maintains ratio as 0.948, 0.930, 0.883, 0.907& 0.952 during 2019-2020, 2020-2021, 2021- 2022, 2022-2023 and 2023-2024 respectively. Demand deposit ratio was high during 2023-2024 with the value of 0.952 and low during the year 2021-2022 with the value of 0.883.

## 2. SAVING DEPOSIT RATIO

- Accounts that pay interest which can be withdrawn on upon demand offered by banks, credit unions, and savings and loans.

**Formula**

$$\text{Saving Deposit Ratio} = \frac{\text{Saving Deposit}}{\text{Total Deposit}}$$

**TABLE NO: 2**
**TABLE SHOWING SAVING DEPOSIT RATIO**

| Year | Saving Deposit (in Rs) | Total Deposit (in Rs) | Ratio % |
|---|---|---|---|
| 2019-2020 | 1,849.29 | 36,049.29 | 0.051 |
| 2020-2021 | 2,968.45 | 42,988.45 | 0.069 |
| 2021-2022 | 5,724.73 | 48,934.73 | 0.116 |
| 2022-2023 | 5,311.17 | 57,611.17 | 0.092 |
| 2023-2024 | 2,820.04 | 59,729.04 | 0.047 |

Source: Secondary data

**INTERPRETATION**

- The above table reveals that the saving deposit ratio of Private banks. The ratio shows a fluctuating trend during the study period. According to the above table the bank maintains ratio as 0.051, 0.069, 0.116, 0.092& 0.047 during 2019-2020, 2020-2021, 2021- 2022, 2022-2023 and 2023-2024 respectively. Saving deposit ratio was high during 2021- 2022 (0.116) and low during 2023-2024 (0.047).

## 3. NET INTEREST MARGIN

- A measure of the return on a company's investments relative to its interest expenses is called net interest margin. The net interest margin helps a company determine whether or not it has made wise investment decisions.

**Formula**

$$\text{Net Interest Margin} = \frac{\text{(Interest Received – Interest Paid)}}{\text{Total assets}}$$

**TABLE NO: 3**
**TABLE SHOWING NET INTEREST MARGIN**

| YEAR | Interest Received (in Crores) | Interest Paid (in Crores) | Total Assets (in Crores) | Ratio % |
|---|---|---|---|---|
| 2019-2020 | 3,673.24 | 2,262.40 | 43,599.48 | 0.032 |
| 2020-2021 | 4,052.03 | 2,305.45 | 51,335.63 | 0.034 |
| 2021-2022 | 5,558.39 | 3,604.99 | 60,538.84 | 0.032 |
| 2022-2023 | 6,167.57 | 4,192.91 | 70,992.94 | 0.027 |
| 2023-2024 | 6,946.08 | 4,717.47 | 74,644.84 | 0.029 |

Source: Secondary data

**INTERPRETATION**

- The above table reveals the net interest margin of Private banks. The ratio shows a fluctuating trend during the study period. According to the above table the bank maintains ratio as 0.032, 0.034, 0.032, 0.027& 0.029 during 2019-2020, 2020-2021, 2021-2022, 2022-2023 and 2023-2024 respectively. Net interest margin was high during 2020-2021 (0.034) & low during 2022-2023 (0.027).

## 4. CREDIT DEPOSIT RATIO

- The proportion of loans generated by banks from the deposits received.

**Formula**

$$\text{Credit Deposit Ratio} = \frac{\textbf{credit}}{\textbf{deposit}}$$

**TABLE NO: 4**
**TABLE SHOWING CREDIT DEPOSIT RATIO**

| Year | Saving Deposit (in Rs) | Total Deposit (in Rs) | Ratio % |
|---|---|---|---|
| 2019-2020 | 4,624.24 | 36,049.29 | 0.128 |
| 2020-2021 | 5,012.07 | 42,988.45 | 0.116 |
| 2021-2022 | 5,586.88 | 48,934.73 | 0.114 |
| 2022-2023 | 6,265.12 | 57,611.17 | 0.108 |
| 2023-2024 | 6,860.71 | 59,729.04 | 0.114 |

Source: Secondary data

**INTERPRETATION**

- The above table reveals that the credit deposit ratio of Private banks. The ratio shows a fluctuating trend during the study period from 2012-2015. According to the above table the bank maintains credit deposit ratio as 0.128, 0.116, 0.114, 0.108& 0.114 during 2019-2020, 2020-2021, 2021-2022, 2022-2023 and 2023-2024 respectively. Credit deposit ratio was high during 2019-2020 (0.128) & low during 2022-2023 (0.108).

## 5. COST OF EQUITY

- Equity is the permanent capital for a firm. The company may raise equity capital both internally and externally. It can rise internally by retained earnings and externally by issuing new shares.

**Formula**

$$\text{Cost of Equity} = \frac{\text{Dividend per shares}}{\text{Market price per share}} \times 100$$

**TABLE NO: 5**
**TABLE SHOWING COST OF EQUITY**

| Year | Dividend Per Shares (in Crores) | Market Price Per Share (in Crores) | Ratio % |
|---|---|---|---|
| 2019-2020 | 85.52 | 27.16 | 314.87 |
| 2020-2021 | 145.39 | 34.32 | 423.63 |
| 2021-2022 | 153.94 | 45.41 | 338 |
| 2022-2023 | 153.95 | 49.00 | 314.18 |
| 2023-2024 | 171.06 | 9.81 | 1743.73 |

Source: Secondary data

**INTERPRETATION**

- The above table reveals that the cost of equity of Private banks. The ratio shows a fluctuating trend during the study period. According to the above table the bank maintains ratio as 314.87, 423.63, 339, 314.18&1743.73 during 2019-2020, 2020-2021, 2021-2022, 2022-2023 and 2023-2024 respectively. Cost of equity was high during 2023-2024 (1743.73) & low during 2022-2023 (314.18).

**6. COST OF DEBT**

- A company may raise debt in various ways. It may be in the form of debenture or loan borrowed from financial or public institutions for a certain period of time at a specific rate of interest. The debenture or bond may be issued at par, discount or premium. If forms the basis for calculating cost of debt.

**Formula**

$$\text{Cost of debt} = \frac{\text{Interest}}{\text{Total debt}} \times 100$$

**TABLE NO: 6**
**TABLE SHOWING COST OF DEBT**

| Year | Interest (in Crores) | Total Debt (in Crores) | Ratio % |
|---|---|---|---|
| 2019-2020 | 3,673.24 | 37,596.05 | 9.77 |
| 2020-2021 | 4,052.03 | 44,876.81 | 9.02 |
| 2021-2022 | 5,586.39 | 53,200.77 | 10.44 |
| 2022-2023 | 6,167.57 | 62,850.22 | 9.81 |
| 2023-2024 | 6,946.08 | 65,496.58 | 10.60 |

Source: Secondary data

## INTERPRETATION

- The above table reveals that the cost of debt of Private banks. The ratio shows a fluctuating trend during the study period. According to the above table the bank maintains ratio as 9.77, 9.02, 10.44, 9.81&10.60 during 2019-2020, 2020-2021, 2021-2022, 2022- 2023 and 2023-2024 respectively. Cost of debt was high during 2023-2024 (10.6) & low during 2020-2021 (9.02).

## FINDINGS, SUGGESTIONS & CONCLUSION

### 5.1 FINDINGS

The following are the findings interpreted through financial performance analysis of Private banks.

- Demand deposit ratio was high during 2023-2024 with the value of 0.952 and low during the year 2021-2022 with the value of 0.883.
- Saving deposit ratio was high during 2021-2022 (0.116) and low during 2023- 2024 (0.047).
- Net interest margin was high during 2020-2021 (0.034) & low during 2022- 2023 (0.027).
- Credit deposit ratio was high during 2019-2020 (0.128) & low during 2022- 2023 (0.108).
- Cost of equity was high during 2023-2024 (1743.73) & low during 2022-2023 (314.18).
- Cost of debt was high during 2023-2024 (10.6) & low during 2020-2021 (9.02).
- Return on assets was high with the value 0.1 during 2021-2022& low with the value 0.088 during 2020-2021.
- Return on equity was high with the value 44.66 during 2023-2024 and low during 2019-2020 with the value 24.58.
- Ratio of fixed asset to funded debt was high with the value 8.39 (2019-2020) & low during 2022-2023 (3.98).
- Ratio of current liabilities to shareholders fund was high during 2022-2023 (408.57) and low during 2019-2020 (235.04).
- Shareholders ratio remains similar during past 5 years with the value of 0.002.
- Fixed assets turnover ratio was high with the value of 0.045 during 2021-2022 and low during 2019-2020&2023-2024 with the value of 0.035.
- Ratio of Reserves to Equity Capital was high during 2019-2020 (70.16) & low during 2020-2021 (22.8). Current ratio was high during 2020-2021 with the value 1.14 and low during 2021-2022 (1.083).
- Overall the bank financial position is not good since the quick ratio is low. The quick ratio was high during 2023-2024 with the value 0.031 & low during 2019-2020 with the value of 0.016.
- Debt equity ratio was high during 2021-2022 (1.019) & low during 2023-2024 (0.234).

### 5.2 SUGGESTIONS

The following are the suggestion made to the bank for the development, they are as follows

- Though the bank is facing an increasing in the liquidity position, the bank has to increase further more so that they can meet the current liability which increases over the years.
- The profitability of the concern is showing a decreasing trend for the past couple of the years and they should be increased for the development of the concern.
- The bank should form new policies and procedures so that the resources are used efficiently.
- The available resources are not used to the fullest extent which will reduce the cost of production and increase the profit.
- The Innovation carried out can also be developed in the products which make the consumer to use more and attract new customers.
- Middle class users are not benefitted by the bank to the greater extent. India being a developing country the middle class people exists in millions.
- The debtors can be collected soon as it can be used to discharge the creditors and current liability to a certain extent.

### 5.3 CONCLUSION

The present business world is becoming more complex because of its dynamic nature. The result of capital structure and financial analysis of private banks reveals that its operations during the study period were satisfactory. Financial management means the entire gamut of managerial efforts devoted to the management of finance both its resources and its uses in the enterprise. It is being rightly said that business needs money to make more money. However, it’s also true that money gets more money only when it is properly managed. Hence efficient management of even business enterprise is closely linked with efficient management of its finance.

The optimum utilization of resources, efficient management of activities, control on the cost and expenses and enhancement of productivity is essential for the survival of the organization. Based on the analysis, this study will provide valuables suggestions which will enable the bank to overcome its weakness and enhance its financial performance. The study is conducted to analyze the present performance and profitability position of the organization. The present situation of the organization was taken for the study is through analyzing the three years annual report which clearly depicts the balance sheet in which the sources of funds, application of funds, and current liabilities and provisions of the bank.

The objectives are to assess the liquidity, efficiency and profitability position of the companies, to analyze and compare the performance of the private banks during the periods 2019-2023, to analyze the complete financial analysis based on performances of the companies, to forecast net sales, gross profit and net profit of the industry, to estimate the trend in profitability position of the private banks consultancy and to estimate the relative contribution of the private banks. The overall result of capital structure and financial analysis of private banks reveals that its operations during the study period were satisfactory.