



"Driving Corporate Responsibility and Legal Compliance: CSR Initiatives under the Companies Act 2013"

1) Which entities are obligated to adhere to CSR regulations?

The provisions of CSR apply to every company fulfilling any of the following conditions in the preceding financial year:

- Net worth of more than Rs.500 crore or
- Turnover of more than Rs.1000 crore or
- Net profit of more than Rs.5 crore

2) What are the mandatory spending requirements for CSR?

According to Section 135 (1) of the Companies Act 2013, a Company is required to spend **2% of the average net profits of the previous three financial years.**

3) What are the primary focus areas outlined in the CSR policy?

The Company shall give preference to the local areas and areas around it where it operates, for spending the amount earmarked for CSR and the further primary focus areas with balance of local area CSR policy:

1. Eradicating poverty, hunger; promoting healthcare and sanitation.
2. Improving education and vocational skills, especially for children, women, and the differently-abled.
3. Safeguarding environmental sustainability and contributing to the rejuvenation of river Ganga.
4. Protecting national heritage, promoting arts and handicrafts, and restoring historical sites.
5. Promoting rural and Paralympic sports through training initiatives.
6. Contributing to national relief funds for socio-economic development and welfare.
7. Supporting research and development in science, technology, engineering, and medicine.
8. Funding educational and research institutions focused on Sustainable Development Goals (SDGs).
9. Undertaking rural development and slum area development projects.

10. Participating in disaster management and relief activities.

4) What are the different modes through which companies can implement CSR activities?

Rule 4 of Companies (CSR policy) Rules, 2014, companies can implement CSR activities through three different modes:

- Implementation by the company directly itself.
- Implementation through eligible implementing agencies as prescribed under sub-rule (1) of rule 4.
- Implementation in collaboration with one or more companies as prescribed under sub-rule (4) of rule 4.

5) What are the fines and penalties for Non-Compliance?

If a company fails to comply with CSR spending and transferring requirements, it faces a penalty of **Rs.1 crore or twice the unspent amount, whichever is lower**. Officers in default may be fined **Rs.2 lakh or one-tenth of the unspent amount, whichever is lower**.

6) What is the applicability of CSR Committee?

- Committee composition: 3+ directors, including at least 1 independent director (for listed companies).
- Exemptions: Unlisted/public companies without independent directors or private companies with 2 directors.
- Foreign companies: CSR Committee needs 2 members; one must be resident in India.



NOTABLE CASE LAWS

- 1) QUEST GLOBAL ENGINEERING SERVICES PVT. LTD:** - In FY 2021-22, the company met Rs. 2,29,34,000.39 of its Rs. 3,50,42,538.39 CSR obligation but did not transfer Rs. 1,23,39,138 to a special account within the required 30 days after year-end, violating CSR regulations. Under Section 135 of the Companies Act, 2013, Quest Global Engineering Services Pvt. Ltd. was fined Rs. 1,00,00,000. Additionally, Company Secretary and Directors of the each faced a penalty of Rs. 2,00,000, capped from potential penalties of Rs. 12,33,914 each.
- 2) M/s TAKRAF INDIA PRIVATE LIMITED:** - The company failed to transfer Rs. 14,50,000 of its CSR obligation for FY 2020-21 into a special account within the mandated 30-day period. Consequently, under Section 135(7) of the Companies Act, 2013, the company faces a penalty of Rs. 29,00,000 (twice the unspent amount), and each director involved faces a penalty of Rs. 1,45,000. The total penalty amounts to Rs. 36,25,000.
- 3) WOS OF FMC TECHNOLOGIES SINGAPORE AND FMC TECH INC, USA:** - A Private Limited Company was fined Rs. 61.31 Lakhs by the Regional Director of MCA for failing to utilize CSR funds, violating Section 135(5) of the Companies Act, 2013. The penalty arose due to missing the deadline to transfer Rs. 26,65,872/- to specified

funds by 30.09.2021. Despite the delay, the company rectified the issue by contributing the amount to the PM CARES Fund on 10.11.2022, acknowledged during adjudication proceedings.

Another company, owned by FMC Technologies, faced a penalty of Rs. 53.31 Lakhs, with directors also fined under Section 454(8) and Companies (Adjudication of Penalties) Rules, 2014.

CONCLUSION

Corporate Social Responsibility (CSR) in India involves companies actively addressing societal and environmental issues alongside their business operations. It encompasses activities that promote environmental sustainability, uphold ethical business practices, and contribute to community development. Compliance with the Companies Act, 2013, and the Companies (CSR Policy) Rules, 2014, ensures companies fulfil their CSR obligations effectively. By embracing CSR, businesses can utilize their resources and expertise to create meaningful changes, benefiting both society and the environment while enhancing their own corporate reputation and sustainability efforts.