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The Profitability of Purpose: Measuring the Impact of CSR on Those Banks Under Private and it's Performance

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Abstract: Corporate Social Responsibility (CSR) became a really vital component of business strategy nowadays, especially in banking sector where this institutions play a big role in economic and social developments. This study tries to examine the relation between Corporate Social Responsibility practices and financial performances of private sector banks in India. The main focus of this research is on evaluating how CSR initiatives influences key financial indicators and how it contributes to the overall sustainability and reputation of the banking institutions. For doing this, the study is based on secondary data which is collected from annual reports, financial statements, journals, and other published sources related to selected private banks for a period of five years from 2019–2020 to 2023–2024. To assess the financial performance, we used various ratios like Demand Deposit Ratio, Saving Deposit Ratio, Net Interest Margin, Credit Deposit Ratio, Cost of Equity, and Cost of Debt. Ultimately, the findings reveals that CSR activities positively contributes to enhance corporate image, stakeholder trust, customer loyalty, and long-term financial stabilities. However, the impact varies depending upon the nature and extent of how CSR is implemented. At last, the study concludes that effective integration of CSR into banking operations is not only supporting social and environmental objectives, but also strengthens financial performance and competitive advantages. Private banks should continue to invest in meaningful CSR initiatives so that they can achieve sustainable growth while fulfilling their responsibilities towards society and stakeholders.

Keywords: *Corporate Social Responsibility (CSR), Financial Performance, Private Sector Banks, Banking Industry, Sustainability, Stakeholder Engagement, Corporate Governance, Net Interest Margin, Financial Ratios, Sustainable Development.*

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I. INTRODUCTION

Corporate Social Responsibility initiatives in private banking can have both negative and positive 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. 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 CSR 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.

➢ *Responsibilities of Private Banking*

Here is an overview of some key aspects:

- *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.

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- *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.

- *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.

- *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 wellbeing. Moreover, a socially responsible work environment can attract top talent, reduce turnover rates, and enhance overall workforce performance.

- *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.

- *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.

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.

➢ *Scope of the Study*

- To assess the bond between CSR, CSR practices and 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.

➢ *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.

➢ *Objective of the Study*

The objectives of the study are:

- Evaluate the bond between CSR (Corporate social responsibility) and financial performance in private banking.
- Analyze the 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 impact of corporate social responsibility on the financial performance and reputation of private banks.

➢ *Tools Used*

Ratios analysis.

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

II. REVIEW OF LITERATURE

According to Shroff FT (2023) in the book *Modern Banking Technology* published by Bank Net Publications, the Indian banking system has changed a lot over the years. The author explains how technology has helped banks improve their services and work more efficiently. The paper also talks

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about some common problems faced by banks in their daily operations. Examples from banking systems in other countries are discussed, and useful lessons from those countries are highlighted. The author points out that Indian banking is going through a major transformation because of new technologies and innovative banking products, which are changing the overall structure of the banking sector.

Similarly, Madhavankutty (2023) states that the Indian banking system has developed well and is now capable of handling modern management practices. These practices are important for making better policies and improving banking performance. The author believes that Indian banks will enter a new phase of growth and reforms as more foreign banks participate in the market. To face future challenges, banks need to improve their technology, strengthen human resource management, and be ready to adapt to changes in the financial environment. At present, there is a noticeable difference in the earnings of top-level executives working in public sector banks compared to those in private and foreign banks. Therefore, banks should focus on proper risk management and maintain strong internal systems to ensure they follow regulatory and financial requirements effectively.

III. HISTORY AND GROWTH OF STUDY

Private Sector Banks called as those banks where most of the investment is in private hands. In India, there are two types of private sector banks i.e. Old and New Private Sector Banks.

- Axis Bank
- HDFC Bank
- Kotak Mahindra Bank
- ICICI 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.

➢ *Product of Service:*

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

➢ *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*

Table 1 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 Mutual fund Insurance company	30.6% 19.71% 8.74%
5.	NPS (HDFC) Pension	1.50
6.	Central/state government	0.001%

➢ *Analysis and Interpretation*

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.

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

➢ *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.

IV. RATIO ANALYSIS

A. 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 2 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.

B. 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 3 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).

C. 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*

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

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Table 4 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 20192020, 2020-2021, 2021-2022, 20222023 and 2023-2024 respectively. Net interest margin was high during 20202021 (0.034) & low during 2022-2023 (0.027).

D. Credit Deposit Ratio

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

➢ *Formula*

$$\text{Credit Deposit Ratio} = \frac{\text{Credit}}{\text{Deposit}}$$

Table 5 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).

E. 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 6 Table Showing Cost of Equity

Year	Dividend Shares (in Crores)	Per	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 20232024 (1743.73) & low during 2022-2023 (314.18).

F. 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*

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

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Table 7 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).

V. FINDINGS, SUGGESTIONS & CONCLUSION

➢ *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).

➢ *Suggestions*

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

- 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.

➢ *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. 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.

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