



A CANDID SCENARIO OF INDUSTRIAL SICKNESS

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ABSTRACT

Small industrial units are the seedbed on industrial development. Sickness is an organic spectacle in the lifespan of industrial entities, if sickness is prolonged for a long period it becomes chronic. Industrial sickness is a cause of long mismanagement, outdated technology, excess human resources, delay in payments, resource utilization & macro-economic variables etc. The enormosity of industrial sickness is a matter of grave concern of modern industrial age for India during the next century. It is reckoned that as of today there are more than 2 lakhs sick units with an outstanding bank credit of over Rs 7000 crore nearly 29,000 units are added to sick list every year. Catastrophe of industrial units leads to frustration among investors, youths & affects foreign direct investment. In fact industrial sickness diffuses all around and postures staid problem to different sectors of the economy.

KEYWORDS: Industrial Development, Sickness, macro-economic variables and Foreign Direct investment.

INTRODUCTION

Industrial sickness especially in small-scale industry has been a shortcoming for the Indian economy, because more and more industries like – cotton, Jute, Sugar, Textiles small steel and engineering industries are being affected by this sickness problem. Industrial sickness is defined in India as “an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year”

According to Companies (Second Amendment) Act, 2002 “Sick Industrial Company’ means an industrial company which has:

i) The Accumulated losses in any financial year equal to 50 per cent or more of its average net worth

during four years immediately preceding such financial year; or

ii) Failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by a creditor or creditors of such company.”

As per the RBI definition, a small-scale industrial unit is considered as sick when:

(i) Any of borrowed accounts of a bank has become ‘doubtful’ advance i.e. principal or interest in respect of any of its borrowed accounts has remained overdue for a period exceeding 2 ½ years and

(ii) There is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its net worth during the preceding two accounting years. In respect of the tiny /decentralized sector also, a unit may be considered as sick if it satisfies the above definition. However, in such cases, if it is difficult to get

financial particulars, a unit may be considered as sick provided it defaults continuously for a period of one year, in the payment of interest or installments of principal and there are persistent irregularities in the operations in its credit cash with the bank.

Not all sick units are beyond redemption. A genuine privation of demand for products is the reason for an industrial unit to go sick in India or could be due to unproductive management, over-staffing or obsolete fabrication apparatus and modus operandi. The spring of cause also arise from dishonesty of the company's promoters who deliberately let their unit go sick after they have transferred funds to their other companies.

SCHOLASTIC OBJECTIVES

1. To justify on the causes of Sick Units.
2. To recommend on the measures undertaken for preventing sick units.
3. To evaluate on current analysis of Sick units in India.

METHODOLOGY

The study is based on Secondary Data. The data collection includes from:

1. The District Industries Centre
2. Directorates of industries and Commerce
3. Sick Industrial Companies Special Provision) Act Section 15 (1)
4. Press Information Bureau, Government of India, Ministry of Heavy Industries & Public Enterprises
5. Industrial Relations Legal Information Bulletin
6. Department of Micro Small and Medium Enterprises.

LIMITATIONS OF THE STUDY

1. The present study does not cover the broader breadth of Sick units due to the paucity of time and other restrictions.
2. Secondary data are used.

REVIEW OF LITERATURE

G.S. Kamat (1984) in his paper "Sickness of industrial cooperatives" suggested the need for restructuring of Indian co-operatives. According to him the need for consolidation of co-operatives through amalgamation and mergers of co-operative units will have to be created through proper education among the members and to make it practicable by necessary legal support must be provided to them.

Pradeep Khandwala (1988) in his research confirmed that the major cause of sickness is inefficient management. External causes such as labour and competitions are essentially secondary factors although

they are primary in particular instances. As per the said study, the prime responsibility for preventing sickness obviously rest with the units and their management. However, Government and financial institutions/ banks have major responsibility of taking incipient sickness and preventing it which includes careful project appraisal, continuous monitoring of units especially during project implementation, professional and speedy and coordinated institutional response of the problems of the units, installation of required systems at the unit and incentive for remaining healthy units and disincentives for actions contributing to sickness.

M.S. Narayanan (1994) examined the performance of BIFR by analyzing 472 cases disposed of by BIFR during 1987-1991. The study attributed the prolonged decision making process of BIFR, its nature of power which are more of a persuasive than of directive and to the approach of respective state governments as the prominent stake holder. The study opined that BIFR may be viewed as successful institution by evaluating and apprehending its performance in terms of disposal of cases that have been successfully survived.

The Times of India (2000) conducted a study titled "An analysis of working of industrial co-operatives" 15 and brought out the fact that 50 per cent of industrial co-operatives other than weavers' co-operatives are dormant in the country. The reasons can be traced to non-availability of timely credit facilities, lack of managerial expertise, inadequate marketing support and inefficient training to create committed workers.

Djankov and Colln Xu 2000 made comparative study of the growth and financing patterns of East Asian Corporations in the years before the crisis with those in other countries. The conclusion was drawn that the East Asian financial crisis showed that risks arising from the corporate sector typically occurred because of institutional weaknesses, including weak property rights, poor bankruptcy and accounting procedures, lack of transparency, and weak or perverse incentives. The literature review reveals that there is not much research undertaken as far as the sickness of industries in the Indian context is concerned. Again, the researches undertaken by various researchers till date are more of a study in identifying the factors/reasons for the sickness, sickness in general or sickness and revival of a particular industry or functioning of BIFR cases post restructuring as compared to similar cases of restructuring of other countries. More so, with the changes in the overall economic policy, business environment and legal system, a sea change in the industrial Financial Restructuring and

Its Impact On Corporate Performance In India 28 sickness as well as revival measures adopted by promoters, financial institutions, banks, Reserve Bank of India and the Government of India has been observed. There are very few empirical studies on the impact of financial restructuring on corporate performance. Empirical research is needed to find whether financial restructuring helps in the improvement of sales, profits, net worth etc. Moreover, financial restructuring is effective in which types of firms i.e. large, medium or small size firms. This study attempts to fill these gaps identified through literature review.

Institute of Small Enterprises and Development 2001 in their study titled "Towards an Alternative Agenda for the Industrial Development of Kerala" pointed out that while sickness and death of industrial co-operatives is a major problem; bogus registration of societies is also a dismal feature of co-operative growth. The study found that since late 1970s, a large number of industrial co-operatives have been registered and majorities are remaining sick or dormant. It also suggested that the revivable units need to be nursed and the assets of the remaining ones are to be recovered by the Government.

The study by Rosemary and Omkarnath 2006 documented the trends and patterns of industrial sickness during pre and post reform period and critically evaluated the performance of BIFR, in line with changed policy framework. The study revealed that the massive sickness in SSI sector during pre-reform period but it has shown significant reduction during the post reform period except a spurt during 1997 due to recession. The study also found out that there has been a significant rise in the sickness of non SSI units after recession in 1997. The study further observed that introduction of SARFAESI Act 2002 gives exclusive rights to the banks regardless of reference to BIFR and has undermined the role of BIFR in reorganizing the viable industrial units which in turn, has exposed that a structural change in BIFR function is needed.

Fayza Chouhary, 2012, "Empirical Study on Reasons of Industrial Sickness-With Reference to Jammu & Kashmir Industries Ltd", the researcher found that financial reasons are the most important reasons considered by the respondents of industrial sickness and another chief reason for the sickness of the industry is the managerial inability i.e. not able to cope up with the

dynamism occurring in the modern day market. Rest factors which influence the sickness in the industry are marketing problems and the corporate planning problems. However the impact of obsolete technology is least on these units in comparison to the other factors. The difference in the opinion exists between the employees of these units in some of the aspects like marketing problems, managerial inability, HR problems, changes acts an important reason for sickness.

CAUSES OF SICK UNITS

Sickness of an industry, bumps with the gradual erosion of its liquidity due to cash losses on continuing basis, and thereby deterioration in debt, equity and current ratios. Various causes of sick units are as follows:

- ☞ There is a pathetic equity base, pitiable utilization of assets, disorganized working capital management, absenteeism of costing, pricing, planning and budgeting.
- ☞ Erroneous selection related to production, inapt installation and maintenance of plant & machinery, lack of excellence control and dearth of standard research & development.
- ☞ Improper demand forecasting, and follow up of debauched sales promotion methods.
- ☞ Incongruous reflection of personnel management policies which include discrepancy in wages and salary administration. Non - availability of skillful manpower is a major cause.
- ☞ The sickness reaches due to excessive tax policies by government and market recession.
- ☞ Erratic supply of inputs and shortage of raw materials.
- ☞ Frequent fluctuations in the Government policy and liberal nomenclature are charted.
- ☞ Sickness is thrust upon macro elements like PEST - political, economic, social and Technological. Natural calamities such as droughts, floods earthquakes, accidents and wars etc. may turn some units sick and enviable.
- ☞ False fixed investment decisions.
- ☞ Over or under utilization of resources
- ☞ Low recovery rate of banks & institution
- ☞ Cost over-runs resulting from delays in getting licenses/sanctions etc.

Major reasons of sickness reported

Reason for sickness	Proportion of sick units
Lack of demand	41.94%
Shortage of working capital	20.49%
Non availability of raw material	5.11%
Power shortage	5.71%
Labour problems	5.64%
Marketing problems	11.48%
Equipment Problems	3.17%
Management Problems	6.46%

Source: Report of Fourth All India Census of Micro, Small & Medium Enterprises

MEASURES TO PREVENT

- The Government accepted the recommendations of the Tiwari Committee with some modification, and thus, the Sick Industrial Companies (Special Provisions) Act, 1985 was, accordingly enacted.
- Board of Industrial and Financial Reconstruction (BIFR) was established by the Central Government, under section 3 of the Sick Industrial Companies (Special provisions) Act, 1985 and it became fully operational in May, 1987. BIFR deals with issues like revival and rehabilitation on sick companies, winding up of sick companies, institutional finance to sick companies, amalgamation of companies etc. BIFR is a quasi-judicial body.
- The Appellate Authority for Industrial and Financial Reconstruction (AAIFR) was constituted in April 1987. Government companies were brought under the purview of SICA in 1991 when extensive changes were made in the Act including, inter-alia, changes in the criteria for determining industrial sickness.
- Concessions and facilities identified under the scheme of rehabilitation prepared by the BIFR or by State Level Inter Institutional Committee of RBI (SLIIC) would be placed before the committee headed by the Industrial Development Commissioner (IDC)/ Industry Secretary for consideration and recommendation to Government through state Level Empowered Committee (SLEC) for approval.
- The Government shall surround an Exit Policy for Sick units which do not find it possible to continue and intend to dispose off their assets and clear the bank dues.
- Irani Committee enunciated that the rehabilitation by cess to be replaced by the 'Insolvency Fund'. It also allowed the debtors to approach the Tribunal with the rehabilitation scheme. Power was also given to the creditors to oppose the scheme of rehabilitation.
- Sick units shall be allowed full rebate on delayed payment surcharge during the period of sickness, if it is included in the dues of Electricity Board
- Amalgamation with another company or takeover management of the sick industrial company.
- Sale or lease of its undertaking
- Rationalization of its staff
- On time delivery & strict quality control measures cost input minimization, modernization of existing infrastructure.
- Research & Development is essential part of any organization but it should not involve undue expenditure.
- Freezing a portion of outstanding in the accounts.
- Imparting various training like Entrepreneurship Development Programmes (EDPs).
- In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small-scale industries borrowers to identify units which are becoming sick or are prone to sickness.

➤ Focusing on issues like managerial, marketing, power and raw material are equally important which remain unattended to in the rehabilitation programmes. Close monitoring of sick units by the Reserve Bank of India.

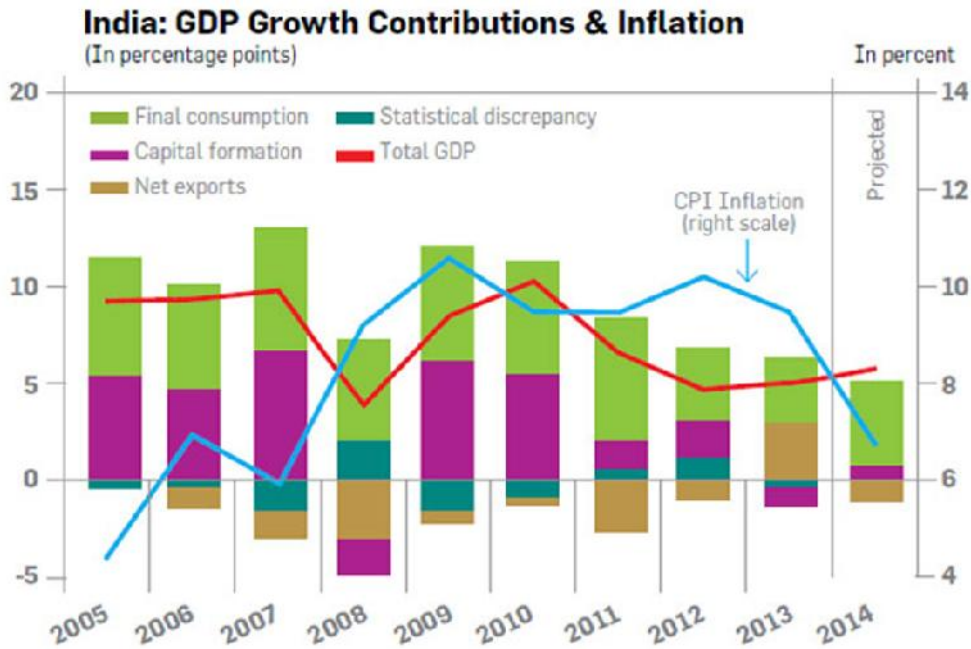
CURRENT ANALYSIS OF SICK UNITS

Owing towards fast swift changing competitive world yet we observe that tentatively on the other side there is a growing prevalence of sick units in terms of non-employability, profit margins, deduction in production outlay and deprived contribution of GDP affecting the economy on the whole.

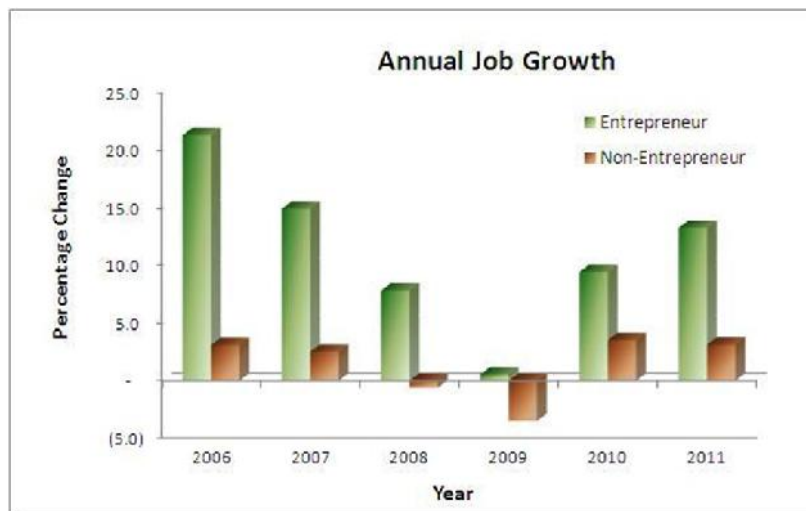
(Amt in ₹ Bn)

End of	Total no of sick units		Potentially viable		Non viable		Viability yet to be decided		Units put under nursing	
	Units	O/S	Units	O/S	Units	O/S	Units	O/S	Units	O/S
FY10	777.2	52.3	91.6	9.7	644.0	38.9	41.6	3.8	23.6	4.8
FY11	901.4	52.1	71.2	11.1	765.2	35.9	65.1	5.1	47.0	5.2

Source: RBI



Source: Haver Analytics, and IMF staff estimates



CONCLUSION

Industrial sickness is a problem to all economies. A stringent methodology should also be concocted so that the directors of the company do not indulge in fraud and preview sickness. NCLT should also be made to come into force to ensure speedy disposal of cases looking into the sluggishness of the disposal of cases by BIFR. Package consisting of concessions from banks, financial institutions, Central/State government agencies, shareholders, labour, and suppliers of goods should be provided to those units where chances are subsisting for the revival of the sick unit.

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