Chapter 4
Rehabilitation of Sick Units – Concept, Process and Developments

4.0 Introduction

As stated in the earlier chapter 2, there is widespread industrial sickness. This is evident from the number of sick units and the loan amount blocked in such units. There are more than one lakh sick units in the country and the loan outstanding from these units exceeds Rs.5000 crores as seen from the Table I. It is disheartening to note that the number of sick units as reported by the banks to the Reserve Bank of India has come down very steeply from 30423 in the year 2000 to 138811 in 2004. This does not mean that there is substantial revival of sickness. In fact, the units have continued to fall sick which is evident from the steep growth in Non Performing Assets during the recent past. Further, due to stiff competition many units do fall sick. Thus, it is clear that banks have developed less preference for rehabilitating sick units due to high credit risk in rehabilitation and accordingly, they have stopped identifying new sick units.

Table I: Sick Units

<table>
<thead>
<tr>
<th>As on the end of March</th>
<th>Total number of sick units</th>
<th>Potentially viable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Amt of loans Outstanding (Rs Crore)</td>
</tr>
<tr>
<td>2000</td>
<td>304235</td>
<td>4608.43</td>
</tr>
<tr>
<td>2001</td>
<td>249630</td>
<td>4505.54</td>
</tr>
<tr>
<td>2002</td>
<td>177336</td>
<td>4818.95</td>
</tr>
<tr>
<td>2003</td>
<td>167980</td>
<td>5706.35</td>
</tr>
<tr>
<td>2004</td>
<td>138811</td>
<td>5284.54</td>
</tr>
</tbody>
</table>

The number of sick units is declining due to high rate of mortality on one hand and banks being reluctant to take up sick units for rehabilitation. But the amount of loan outstanding as on March end, 2004 is as high as Rs.5284.54 crores. The country like India can not think of sacrificing such a huge amount. Hence, a need for revival of rehabilitation of sick SME units is felt on economic and social considerations. To elaborate, closure of sick units produces loss of production, income and employment. Many of the units are producing even vital products. Similarly, it is a costlier proposal to close a sick unit and restart a new one in its place taking into account the hike in the cost of land and building. Hence, it has been the policy of the Government of India and the Reserve Bank of India to pursue the banks to rehabilitate sick units. Over the years, many developments have taken place in the policy matters. Thus, it is becoming important to deal with all related aspects of rehabilitation with special reference to issues in rehabilitation and offer suggestions to make the rehabilitation exercise more effective. In this regard, it is appropriate to deal with conceptual as well as operational aspects of rehabilitation besides examining related developments. In this chapter, it is attempted to discuss certain aspects of rehabilitation which include: Behavior of borrower accounts; Definitions, viability and rehabilitation of a sick unit; Causes of sickness; Balance sheet of a sick unit; RBI Committees on sick units; process of rehabilitation; Schemes of rehabilitation; Dimensions of industrial sickness and Challenges to strengthen rehabilitation.

4.1 Behavior of Borrowal Accounts

No unit falls sick all of a sudden. It has to pass through certain stages prior to occurrence of sickness. In this respect, it is interesting to study the behavior of sick units or borrowal accounts. As observed in banks, every borrowal account is regular on the date of loan sanction.
Subsequently, due to uncertainties and seasonality in business, the unit or borrowal account starts operating at a lower capacity. As a result of this, the unit maintains irregularity in the cash credit or overdraft account and becomes ‘irregular’. This irregularity is temporary in nature and therefore, the banker allows the same for a certain period hoping that the difficulties are short period. Such difficulties may include non-availability of raw materials, labor strike, power-cut, shortage of working funds, machinery breakdown, rejection of major orders, delayed settlement of bills by customers etc.

After overcoming such difficulties, the account once again becomes ‘regular’. Often, these difficulties may remain unsolved and therefore, the irregularity in the account persists for a longer period. In majority of the cases, even the interest is unpaid. This adds to irregularity continuously. Here, the banker lives with the irregularity for quite some time without providing additional funds. He may relax terms and conditions, if necessary. He may also continue to make liabilities more secured. Then, a point comes when the banker has to decide either to go with the firm or to initiate legal proceedings. He will continue to assist the unit if the following two conditions are fulfilled i.e. the borrower’s integrity is still undoubted, and there are fair chances to recover because the project is still feasible.

Normally, for the benefit of banker and borrower, such proposals are considered for nursing or rehabilitation. Here, the account becomes sick. After passing through the nursing or rehabilitation period, the account may come back to normal health. But few accounts cannot be revived and therefore, they become sticky. The different phases of health are shown in the diagram.
4.2 Definitions, Viability and Rehabilitation of a Sick Unit

4.2.1 Definitions:
As per the RBI definition, a small-scale industrial unit is considered as sick when
(i) Any of borrowal accounts of a bank has become ‘doubtful’ advance i.e. principal or interest in respect of any of its borrowal 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.

4.2.2 Viability of Sick SSI Units:
A sick unit may be considered potentially viable, if it would be in a position, after implementing a relief package spread over a period not
exceeding five years from the commencement of the package from banks, financial institutions, Government (Central/State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period of restructured (past) debts should not exceed seven years from the date of implementation of the package. In case of tiny decentralized sector units, the period of relief/concessions and repayment period of restructured debts will be two years and three years respectively. Based on the norms specified above, it is for the banks/financial institutions to decide whether a sick SSI unit is potentially viable or not. The viability study of the unit should be carried out and decision on rehabilitation or otherwise should be taken expeditiously on receipt of complete information on all relevant aspects from the management of the unit. It is of utmost importance to take measures to ensure that sickness is arrested at the incipient stage itself.

The management of the units should be advised about their primary responsibility to inform the banks if they face problems which could lead to sickness and also to restore the units to normal health. The branch officials who are familiar with the day-to-day operations in the borrowal accounts should also identify the early warning signals by making visits to the units and initiate corrective steps promptly.

4.3 Rehabilitation of Sick SSI Units

If the project is found viable, it should be attempted to rehabilitate the sick unit. Every rehabilitation scheme involves certain relief and concessions. As per the recommendations the Kohli Committee, appointed by the RBI, certain guidelines are available on relief and concessions. Accordingly, relief/concessions are not to be given as a matter of routine in all cases. It is for the banks/financial institutions to
decide on the nature and extent of concessions necessary/warranted within these parameters, depending upon the merits of each case. Further, in order to speed up the process of preparation and implementation of packages, the banks have been given freedom for extension of relief/concessions beyond the parameters in cases where it is absolutely necessary. Many other guidelines on rehabilitation are discussed in the subsequent part of the Chapter.

4.4 Causes of Sickness

Causes of industrial sickness have to be viewed from the general background of an industrial economy which experience prosperity and depression over a period of time. At any point of time, the problems of industries are not uniform. However, factors generally responsible for the problems can be divided into external and internal. These are those over which industry has no direct control. The external factors include changes in fiscal and monetary policies, prices and distribution, non-availability of inputs including power, transport, coal, etc., adverse changes in money market and capital market, adverse industrial relations, etc. Internal factors are those which are within the control of the management of the concern. These include faulty planning, implementation of the project, lack of inventory and cost control, wrong selection of the site, faulty management accounting, managerial deficiency, etc. Causes of sickness can vary from area to area, size to size of units and their product to product. Sickness can originate right from the stage of conception of the stage of crystallization of the concept and/or implementation of the project. In general, a unit becomes sick when it cannot generate adequate cash surplus from internal sources. Internal cash generation is the most important indicator of the unit and, therefore, this can be taken as a starting point of our analysis. Any decline in the internal cash generation is possible due to several reasons such as

1. Drop in production on account of:
• problems of production
• lack of orders
• lack of raw material

2. Poor cash management
3. Increased cost of production
4. Delayed settlement of payments by customers
5. Diversion of funds for non-productive purposes. The above points are discussed in the Chart – Causes of Sickness.

Thus, the causes of industrial sickness are numerous and varied. While studying causes, it could be seen that liquidity constraint is the root cause of sickness. With continuous cash losses, the unit fails to meet its obligations and in this process, the unit faces a major threat from the suppliers of materials. Loss in liquidity arises due to diversion of short-term funds for acquiring long-term assets. Due to deteriorating liquidity position the unit will have to operate at a lower capacity and lose its major customers. Thus, unit now is said to have lost viability and considered sick.
Chart – Causes of Sick Units

Lack of Working Funds

Drop in Internal Cash Generation

Drop in Production

Cash Management

Increased Cost of Production

(a) Deliberate diversion of funds
(b) Well intentioned but unwise diversion
(c) Poor collections
(d) Unplanned payments to creditors
(e) High inventory
(f) Unproductive expenditure

Problems in Production

(a) Machine breakdowns, poor maintenance
(b) Poor quality of raw materials
(c) Poor labor productivity
(d) Power shortage
(e) Lack of production, planning and control
(f) Delayed supplies from sub-contractors
(g) Poor industrial relations

Lack of Orders

(a) Competition
(b) Recession
(c) Low quality technical incompetence
(d) Irregular deliveries
(e) Poor marketing efforts
(f) Obsolescence

Lack of Raw Materials

(a) National or regional shortage
(b) High cost
(c) Overdue payments is suppliers
(d) Poor quality
(e) Uncertain suppliers
(f) Lack of planning

Increased Cost of Raw Material

(a) Increased costs not covered in selling prices due to faulty costing
(b) Large order booked at fixed prices in an inflationary market
(c) High material wastage

Increased Overhead Costs

(a) Inefficient production
(b) Unutilized capacity
(c) Heavy borrowings, high interest charges
(d) Increased administration or selling costs
(e) Unplanned capital exp.
(f) New product development or diversification
4.5 Signals of Sickness

There are several signals of sickness of an industrial unit. These signals are obtained from few sources. These include A) Stock Inspection B) Bank Ledger C) Discussion with Borrower D) Market Report E) Financial Statements. It is attempted to show how banks generally obtain signals from these sources:

A. Stock Inspection

By comparing the stock statement of a borrower with his stock register, it is possible to ensure whether the stock position as declared by him is in accordance with the books of accounts. If there is a major variation, a signal is thrown. In case of large borrowers, the verification of stock includes:

- stock kept at the factory premise;
- finished stock at the sales depots of the company;
- raw materials sent to outsiders for conversion or processing; and
- stock in transit

Besides physical verification of stock, it is necessary:

- purchase price of raw material as indicated in the invoices;
- position of goods in process and finished stock as on the given date duly certified by the production manager; and
- pricing policy of the company and methods of valuation of stock adopted.

Any major variation in stock value as per the stock statement on one hand and books of accounts on the other, gives an indication of misappropriation of stock.

1. The physical verification of stock ensures the end use of loans. If the stock is inadequate, it indicates that the funds are not fully utilized for the agreed purpose.

2. If any stock not related to business is stored in the factory
godown, it indicates about trading activity.
3. If the stock statements are deliberately not submitted for a long time, it shows that stock may not be adequately held.
4. If the company has maintained excessive stock than required, it also indicates that the company is indulging in trading practices.
5. If the company has taken dual finance from two different bankers on the same stock, it indicates the dishonesty of the borrowers.
6. It is difficult to ensure the quality of the stock. But, if there is no movement of a major part of finished goods, it shows that the stock is outdated and not saleable.

B. Study of Bank Ledger
1. Poor turnover in an account indicates that either the sales are being routed through other banks or have dropped. In either case, the officer should make an enquiry. Otherwise, it may lead to misuse of funds by the borrower.
2. Cheques for large and round amount, post-dated cheques and cheques frequently issued in favor of those parties not related to business, may need to be examined carefully. A dialogue with the borrower could be initiated to find out the root cause and to take remedial steps.
3. The bill account reveals the major transactions of the business. Frequent return of bills may mean that the borrowers’ goods are being rejected by purchasers or the purchasers are sending payments directly to the borrower. When the bills are received back, the borrower is promptly advised that the bills have been returned by the collecting branch for the reasons, ‘payment not forthcoming’ and that he should replenish his account forthwith. Often, banks are more worried about the account and not the reasons for non-payment.
4. If there has been irregularity in the account for a longer period, it indicates that outflows are in excess of inflows of cash.

5. If there are no operations in the account during a part of the year, it indicates that the unit has stopped working during that period. This is a signal for analysing the reasons for the inactive operations in the account.

6. The behavior of the account during the year would help in getting the signal. The actual drawings should be related to the business requirements. It is expected that the unit normally requires more funds during the busy season. It is also expected that the unit has to maintain a minimum level of stock and, therefore, it requires minimum amount of funds all through the period. Any variation in these expectations would throw a signal.

7. If there is a heavy withdrawal of cash, this is a signal of sickness.

C. Discussion with Borrowers

1. Major breakdown in plant and machinery
2. Labor strike
3. Change in management
4. Sudden death/illness of partner/director
5. Disputes among partners/directors
6. Frequent reconstitution of the firm/board
7. Frequent requests for enhancement of limits

D. Market Reports

1. Recession in industry
2. Unfavourable position of the inputs
3. Unsatisfactory reports about the party
4. Sharp fall in prices
5. Unfavourable changes in government policy as regards imports, exports, price fixation, etc.
6. Routing transactions to other bank/s.
E. Financial Statements and Other Data

1. Unsatisfactory trend in profits
2. Rise in book debts
3. Shortage of working funds
4. Unsatisfactory position of equity
5. Diversion of short term funds for long term use
6. Building up of unproductive assets
7. Unhealthy accounting practices

4.6 Balance Sheet of a Sick Company

Given below are certain points from a balance sheet of a sick unit which can give some indication of sickness;

Balance Sheet of a Sick Unit

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Liabilities</th>
<th>Sr. No.</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Short term borrowings would be high</td>
<td>a)</td>
<td>Current assets would stand depleted</td>
</tr>
<tr>
<td>b)</td>
<td>There would be some unpaid statutory liabilities such as wages, bonus etc for a period exceeding one year</td>
<td>b)</td>
<td>Dead stock and non-moving inventory</td>
</tr>
<tr>
<td>c)</td>
<td>Suppliers of raw materials would remain unpaid for a long period</td>
<td>c)</td>
<td>Over due debts mostly irrecoverable</td>
</tr>
<tr>
<td>d)</td>
<td>Considerable amount of contingent liabilities would exist mostly due to law suits</td>
<td>d)</td>
<td>Negligible cash and bank balance</td>
</tr>
<tr>
<td>2.</td>
<td>Term Liabilities</td>
<td>2.</td>
<td>Fixed Assets</td>
</tr>
<tr>
<td></td>
<td>Loan installments remain unpaid for a period exceeding one year and would continue</td>
<td></td>
<td>These appear inflated and non-realizable</td>
</tr>
<tr>
<td>3.</td>
<td>Equity</td>
<td>3.</td>
<td>Intangible Assets</td>
</tr>
<tr>
<td></td>
<td>It is gradually reducing and even negative</td>
<td></td>
<td>Those including losses and capitalized expenses would be prominent</td>
</tr>
</tbody>
</table>
4.7 RBI Committees on Sick Units

4.7.1 The Hasib Committee

Till February 1987, the rehabilitation of sick SSI units found potentially viable was governed by the same guidelines issued for rehabilitation of large and medium scale units. Although sickness in large, medium and small industrial units exhibits many common features, any approach to sickness in the SSI sector has to reckon with the relative weakness of such units to withstand difficulties as also the distinction between the small scale units and tiny sector units and also between tiny sector units and units in the decentralized sector comprising artisans and village and cottage industries units. With this background, the need for separate guidelines in regard to rehabilitation of sick units in the SSI sector with specific reference to definition of sick SSI unit, viability norms, incipient sickness as also reliefs and concessions from banks/financial institutions for implementation of rehabilitation package in the case of potentially viable units was examined by a Committee, constituted by Reserve Bank of India in 1986 under the Chairmanship of Shri A Hasib, the then Executive Director of the Bank. Based on the recommendations of this Committee, RBI issued detailed guidelines in 1987 for rehabilitation of sick SSI Units. These guidelines relating to definition of sick units, nature of reliefs and concession, etc. underwent certain changes on the basis of recommendations made by High Level Committees viz. Nayak Committee and Kapur Committee appointed by Government of India and Reserve Bank of India respectively.

State Level Inter Institutional Committees (SLIICs) chaired by the Secretary, Industry of the concerned State Government were constituted by RBI in the late 1970s in all the States. It provides a forum for adequate interface between the State Government officials and State level institutions on the one side and the term lending
institutions and banks on the other. Despite the efforts of this forum, which also includes representation from SSI Associations to coordinate rehabilitation process, the performance was not up to the expectations.

4.7.2 The Kohli Working Group, 2002

Of the total sick units identified, only 6.10 per cent were found potentially viable. This became a major area of concern which called for a re-look at the present guidelines on sick SSI units. It is under these circumstances that the meeting of the Group of Ministers held on August 16, 2000 had inter alia decided that RBI should draw up revised detailed, transparent and non-discretionary guidelines for the rehabilitation of current sick and potentially viable SSI units. Accordingly, the RBI set up a Working Group in 2002 under the Chairmanship of Shri S S Kohil, Chairman, Indian Banks’ Association to review the existing guidelines in regard to rehabilitation of sick units in the small scale industrial sector and to recommend the revision of guidelines making them transparent and non-discretionary. Observations/ recommendations of the Working Group include the following:

(i) Several internal and external factors affect the performance of the SSI, resulting in a number of them becoming sick. Of late, the incidence of sickness in the SSI sector is showing an increasing trend and a large number of SSI units, identified as sick, were also not found potentially viable.

(ii) Viability norms are decided on the basis of time taken to repay the structured debt and ability to function without the help of concessions after that period.

(iii) A unit may be regarded as potentially viable if it would be in a position, after implementing a relief package spread over a period not exceeding five years from the commencement of the package from banks, financial institutions, Government (Central/State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as
agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured (past) debts should not exceed seven years from the date of implementation of the package. In the case of tiny/decentralized sector units, the period of relief/concessions and repayment period of restructured debts should not exceed five and seven years respectively.

(iv) Viability of a unit identified as sick, should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as ‘potentially viable’ / ‘viable’. While identifying and implementing the rehabilitation package, banks/financial institutions are advised to do ‘holding operation’ for a period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such ‘holding operation’.

(v) The following are broad parameters for grant of relief and concessions for revival of potentially viable sick SSI units:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on Working Capital</td>
<td>1.5% below the prevailing fixed / prime lending rate, wherever applicable</td>
</tr>
<tr>
<td>Funded Interest Term Loan</td>
<td>Interest Free</td>
</tr>
<tr>
<td>Working Capital Term Loan</td>
<td>1.5% below the prevailing fixed / prime lending rate, wherever applicable</td>
</tr>
<tr>
<td>Term Loan</td>
<td>Concessions to be given not more than 2% (not more than 3% in the case of tiny/ decentralized sector units) below the document rate</td>
</tr>
<tr>
<td>Contingency Loan Assistance</td>
<td>The Concession rate allowed for Working Capital Assistance</td>
</tr>
</tbody>
</table>

Relief/ concessions detailed above are only indicative. It is for the banks/ financial institutions to decide on the nature and extent of concessions necessary / warranted, depending upon the merits
of each case. The banks have been given freedom for extension of relief / concessions even beyond the parameters, in cases where it is considered absolutely necessary.

4.7.3 Internal Group to Strengthen Credit Flow to SME Sector, Appointed by the RBI, 2005

As part of the RBI initiative to strengthen credit flow to the SME sector, an internal group was set-up which also looked into rehabilitation of sick units. The major observations/recommendations on rehabilitation of sick units include the following:

I. All the accounts of sick units may be restructured on the lines of proposed debt restructuring mechanism for SME sector;

II. Extant guidelines on definition of a sick SSI unit may continue. All other instructions relating to viability and parameters for relief and concessions to be provided to sick SSI, as prescribed by Reserve Bank may be withdrawn and banks may be given freedom to lay down their own guidelines with the approval of the Board of Directors. While formulating their guidelines, banks may consider the indicative guidelines suggested by the Working Group on Rehabilitation of Sick SSI Units (Chairman: Shri S S Kohli).

III. As per the extant guidelines, a unit is considered as sick when any of the borrowal accounts of the unit remains sub-standard for more than six months. The banks may consider restructuring of units having financial problems even if the account has remained sub-standard for six months or less.

IV. It is expected that the policies formulated by banks in respect of (ii) and (iii) above will be more liberal than the existing policies.

V. Every attempt may be made by banks to implement the rehabilitation package in respect of the accounts of sick units at the earliest. In any case, it may not exceed a period of 3 months from the date of bank deciding suo motu to reconstruct the accounts or date of receipt of request to that effect from the
borrowing unit concerned.

4.7.4 The State Level Inter-Institutional Committee (SLIIC)

This mechanism was initially set up in 1979 at all Regional Offices of RBI. Taking into consideration various suggestions received from certain State Governments and Ministry of SSI, Government of India, Dept. of Banking Operations and Development (DBOD), RBI had issued detailed guidelines on March 26, 1981 on the constitution of SLIIC. As per above guidelines, the Secretary (Industries) of the concerned state government would be the Chairman of the Committee and Director, SISI, representatives of SFC, SIDC, IDBI and 3-4 banks with majority presence as members. Reserve Bank is the convener. The major function of the forum was to monitor / review cases of rehabilitation of sick SSI units. It also provides a useful forum for interaction between state government officials and state level institutions on one hand, and term lending institutions and banks on the other. A sub-committee of SLIIC has also been set up wherein the borrowers and concerned banks discussed the issues of rehabilitation.

Since the empowered committee to be constituted with the Regional Director of Reserve Bank as the Chairman, will also look into co-ordination issues between different agencies and banks, and in the light of above facts and committee’s recommendations relating to restructuring the accounts of sick SSI/ME, the future role of SLIIC may be reviewed.

4.8 Process of Rehabilitation

In general, a sick SSI unit is defined in terms of its capacity to generate internal funds. A sick unit fails to generate internal surplus on a continuing basis and depends on its survival on frequent infusion of external funds. Hence, a need for detailed discussion on rehabilitation is very much felt.
4.8.1 Objectives of Rehabilitation Scheme

- To enable the unit to operate at a profitable level.
- To adjust the irregularity in the account, if any, according to a phased programme.

Thus, the rehabilitation scheme involves two aspects i.e., (i) preparation of feasibility report before implementing the scheme and (ii) careful monitoring of the performance of the unit during the nursing period.

4.8.2 Features of Rehabilitation Scheme

- The scheme should be carefully drawn and all doubts must be clarified before chalking out the same. It must be supported by the bank and the borrowers.
- As the unit is already heavily debt burdened, the scheme should be based on well-calculated break even point. Under rehabilitation, the unit should operate at a much higher level than before and in this regard, the following questions must be answered:
  
  Is it possible to operate at a higher level under present market conditions?
  Will present plant and machinery allow manufacturing output at higher level of activity?
  Can present organization cope with increased level of activity?

- To be able to operate at higher level, additional finance will be necessary and especially in cases where the net worth of the unit has become almost negative. In such cases, the end use of funds must be carefully monitored.

- The repayment programme must be carefully worked out, enough funds must be available to the unit to operate at the desired level with a view to ensuring continued internal generation of surplus.

- The rehabilitation should be decided by the concerned authorities within a reasonable time. The longer the decision-making period, the greater would be magnitude of the problem.
4.8.3 Decision on Rehabilitation

Keeping in view all the possible outcomes, risk involved and the irregularity in the account, bank decision should aim at promoting the business activity and not the borrower as an individual. The decision should be based on likelihood of possible recovery. Finally, bank can support the borrower provided he has equal interest in coming out of the sickness. In other words, bank decision to rehabilitation a unit could be justified if it can:

- Generate adequate activity and employment
- Control the business activity effectively
- Commit additional funds, if necessary
- Elicit co-operation from workers, suppliers of materials, etc.

4.8.4 Preparation of Rehabilitation Scheme

(a) Assessment of Feasibility of the Project:

The scheme should be finalized after a detailed study of the sick unit and understanding the problems of the unit. In this context, the following points should be kept in mind:

i. Is the project feasible i.e. to operate above the break-even point?

ii. Are the prevailing market prices remunerative? Is it necessary to change the pricing policy?

iii. Are raw materials available to produce goods at the desired level of activity?

iv. Are there any constraints such as power, transport bottlenecks, paucity of space, skilled workers etc?

v. Are the existing machineries able to cope with the increased level of activity?

vi. Is the borrower prepared to accept the financial discipline being imposed by the bank?

If all the above and any other related questions are positively answered, the project is feasible and should be considered for
(b) Assessment of Additional Funds:

Additional funds are required for the following:

i. Statutory liabilities and payments to creditors to be made
ii. Payments to other creditors
iii. Minimum funds required to purchase machineries to raise the productive capacity to the desired level
iv. Minimum working capital requirements till cash cycle gets into motion
v. Operating deficits in the short run arising as per cash flow estimates and any other shortage therein to be provided for.

Sources of Funds include:

i. Additional capital contribution from the borrower and deposits from the friends and relatives
ii. Disposal of excess stock
iii. Speedy recovery of outstanding bills
iv. Internal generation of funds
v. Additional working capital limits
vi. Additional term loan for acquisition of fixed assets

(c) Preparation of Cash Flow Estimates:

Banks have to prepare a cash flow statement showing cash flow estimates during the rehabilitation period. The estimates should be prepared on the basis of the realistic considerations. The scheme must also have a provision to sanction ad-hoc limit in case the process of credit sanction takes a long time and in the meanwhile, the unit may need a small amount for certain immediate payments.

(d) Arrangements Made With Other Creditors:

Before finalizing the scheme, banks must seek co-operation
from the creditors for supply of raw materials. It must be ensured that supply of raw materials will continue on regular basis and at economical price. We must ensure that the creditors will continue to grant normal credit to the borrowers.

(e) Marketing Arrangements:

While finalizing the scheme, banks have to study the marketing problems and offer suggestions. Such suggestions would include:

- A product that has lost its name in the market with the trader but not with the ultimate users, is easy to re-establish by restoring confidence of the former.

- If existing sales-agents are not interested in continuing or not needed because of high cost, there could be two options; either to appoint other suitable selling agents or to create a wide network of selling agents who could be used to realize the overdue debts under gradual collection arrangements through steady supplies of the product to such parties.

- Freezing of Existing Bank Borrowings: This system is suggested for smooth banking operations. Cash credit balance against non-current inventory and old debts should be separated and frozen. Interest thereon should also be kept separate and frozen. For the purpose of deciding on the new financial arrangements, the current assets which are in use should only be considered. The distinction between frozen and operating accounts gives operational control through security of transactions at the lender’s end.

(f) Arrangement for Recovery of Overdue Debts and Disposal of unwanted Assets:

In some cases, it is possible that certain assets which are unwanted, should be disposed off. Banks have to identify such assets in consultation with the borrower. Banks must ensure
that the borrower will make all efforts to recover over dues from customers. Before deciding on whether to rehabilitate the unit or not. Banks should know what could be the realizable amount from the disposal of unwanted assets.

(g) Arrangements made with Other Financial Institutions and Equity Holders for additional funds:
In case of the borrowers having facilities with more than one credit institution, the nursing programme could be finalized with the consent of the consortium bankers. The possibility of issuing additional equity shares should also be examined. Under the rehabilitation programme, the stake of other lenders should be finalized.

(h) Arrangements for Management Performance:
It is often thought of replacing the old management with new management to overcome the failure of the former. For ensuring the performance, the action can be as drastic as removing the entire top management. This is suggested in case of mismanagement, misuse of funds, wrong inheritance and other similar situation. Lenders have a right to participate in management and decision making. The critical positions are finance, purchases, sales and production. Success of these executives should be measured on the basis of growth of the borrowers’ business and safeguarding of lenders’ interest.

4.8.5 Guidelines on Monitoring
Having decided to rehabilitate the unit, the bank has to undertake activities mentioned in the succeeding paragraphs

(a) Developing Information System:
For the purpose of rehabilitation, it is necessary that information is collected periodically. Such information to be collected depends on the individual case. Statements and returns
normally collected from borrowers would include:

- Stock Statements
- Weekly/Monthly/Quarterly budgets and actual figures for production, sales, purchases, overhead expenditure etc.
- Monthly cash flow statements
- Operating Statement
- Balance Sheet

The follow up action starts with the collection of necessary information from the borrower. Before rehabilitating the unit, banks must indicate information required so that the borrower can develop his own information system.

(b) **Review of Performance:**

Banks have to review the performance of the borrower regularly, say monthly. Such review performance should aim at examining whether there has been improvement in the working of the unit. We have to ensure that;

- There is not much variance between the projected and actual figures of production and sales
- The funds are used as agreed upon. If the cash budget system is introduced, the bank should see that the cash is managed as budgeted.

(c) **Monitoring Areas of Weakness:**

Review of the account reveals the areas of weakness. A detailed study of such areas would suggest the line of action. For instance, if marketing was observed as a major area of weakness, the steps should be taken to improve such as arrangements with salesmen/dealers, product design, pricing strategy etc.

In several cases, weakness may be in the organization itself. The organization can be strengthened by an appointment of the
professional personnel. The bank may also nominate one of its executives as a director to observe policy decisions that are being taken.

In regard to financial weakness, following alternatives are available:

- To provide additional credit facilities
- To convert excess short term credit into term loan
- To modify short term credit facilities
- To reduce interest rate and other charges
- To rephase the term loan installment so that a longer repayment period is granted
- To adjust a certain portion of the sale proceeds towards the irregularity in the account
- To grant repayment holiday for a definite period.

There could be some small units, which have become sick on account of external factors like lack of power supply, water, raw materials, etc. Such units may be referred to the State level Co-ordination Committee, which has been set up at the state level with representatives of banks, term lending institutions, state government etc.

4.9 Schemes of Financial Assistance to Sick Units

In the succeeding paragraphs, schemes of various institutions have been discussed:

4.9.1 Soft Loan Schemes of Modernization of SIDBI

This scheme was introduced in 1977 for providing assistance to all the industries to undertake modernization/renovation/replacement of equipment. Assistance under this scheme is available to industrial units for financing modernization aimed at,

- Up gradation of technology and product
- Export Orientation
- Import Substitution
- Improvement in capacity utilization
• Improvement in material handling
• Anti-pollution measures
• Conservation of raw materials and other inputs.

Industrial concerns in operation for at least 10 years are eligible. Plant and equipment to be replaced must have been operation for 10 years. This condition is relaxed for industries where rate of obsolescence is quicker. Export oriented industries are accorded higher priorities. The interest is at concession rate.

4.9.2 Textile Modernization Scheme of IDBI
Textile Modernization Fund provides financial assistance at concession rate and also attends to some special problems of weak but viable units. This scheme is in operation w.e.f. 1st August 1986. Under this scheme, two types of loans are provided at a concession rate of interest.
• Modernization Loans
• Promoter’s contribution is minimum 20% of the cost of scheme.
• Special Loans are granted to weak but viable units towards part of promoter’s contribution. Amount of loan is decided on case to case basis depending upon expected cash accruals.

4.9.3 Sugar Development Fund of IDBI
The Central Government enacted SDF act in 1982 for rehabilitation and modernization of the sugar industry. Sugar undertakings producing sugar by means of vacuum process and with the mechanical power are eligible for loan for SDF to meet the short fall in their promoter’s contribution. The interest is charged at a concession rate.

4.9.4 Jute Modernization Fund of IFCI
IFCI operates this scheme and sanctions either modernization loan or special loan to jute mills on concession basis.
4.9.5 Technical Development Fund of IDBI
The Government has launched TDF for providing foreign exchange to promote full utilization of capacity, enhance the export potential, aid modernization and help technological upgradation. TDF scheme of IDBI is designed to provide assistance in Indian currency by way of direct loans to existing industrial units which obtain import license. Rate of interest under this scheme is lower than normal rate of interest.

4.9.6 Bills Rediscounting Scheme
This scheme was introduced in April 1965. Under this scheme, entrepreneurs can avail of the deferred payment facility from supplier of equipment, plant and machinery etc. These is available with financial institutions.

4.9.7 Suppliers Line of Credit of ICICI Bank
This scheme is operated by ICICI Bank and is similar to the Bills Rediscounting Scheme. In this scheme, the payments are directly released by ICICI to the supplier against duly accepted/guaranteed bills by the purchaser banks. The scheme is meant for indigenous manufacturers of sale of equipment. Period of credit facility is 5 to 7 years. Rate of interest is 15% for 5 year facility and 15.5% for 7 year facility.

4.9.8 Equipment Finance Scheme of IDBI
This scheme provides rupee and foreign currency loans to industrial concerns for purchases of capital goods. Rate of interest depends upon the interest rate applicable to foreign currency fund utilized by IDBI Ltd. for granting assistance under the scheme. Repayment period is between 2 and 7 years.

4.9.9 Schemes of Commercial Banks
Commercial banks after identifying a sick company, undertake
assessment of viability of the project. If the project is found viable rehabilitation scheme is prepared. The concessions are offered in the rate of interest, margin money and other terms.

4.9.10 Schemes of Government

State Governments

Following schemes can be undertaken:

- Sales tax loans can be provided.
- Preferential treatment to sick units for power supply.
- Guarantee should be available where needed for fresh advances.
- Exemptions from sales tax and other levies.
- Speedy disposal industrial disputes.
- Adequate market support should be provided.
- Provide adequate budgetary support.
- Penal levies in respect of sick units should be waived.
- Price preference in the matter of purchases
- Provide equity distribution.

Central Government

- Exemption from Central excise, wholly or partly.
- Income tax relief should be provided.
- Deferment of provident fund/waiver of penalties, income tax and employees' insurance dues.
- Exemption from payment of minimum bonus.
- Provide budgetary support.
- Provide marketing support.
- Reserve certain quota for purchases by Government.

4.10 Dimension of Sickness in SSI Sector

The system of reporting on sick units by banks to the Reserve Bank of India used has undergone a change. This is evident from the Report
on Trends and Progress on Banking, RBI. Till 1999, more details were provided. Of late, the limited data are shared which are indicated in Table 1. From the analysis of data available till 1999 (Table 2), the following points emerge:

- The position regarding sick SSI units vis-à-vis sick non-SSI units, sick SSI units in the portfolios of scheduled commercial banks during the years 1991 to 1999 is furnished in Annex I and II respectively.

- It may be observed from Annex I that though the number of sick SSI units has increased from 2.21 lakhs in 1991 to 3.06 lakhs in 1999, its percentage to total sick units including medium and large industries remained around 99. However, while the amount outstanding against sick SSI units increased from Rs 2,792 crores to Rs 4,313 crores during the corresponding period, its percentage to total amount locked up in sick units has declined from 25.9 to 22.1.

- Annex II reveals that the percentage of number of sick SSI units to total SSI units shows a declining trend from 11.34 in 1991 to 9.80 per cent in 1999. Similarly, the amount outstanding against sick SSI as a percentage to total outstanding against SSI sector has declined from 15.56 to 8.35. The decline in percentage is not because of the reduction in the number of total SSI units and the outstanding credit against them.

- It may however be observed from Annex II that the number of units identified as potentially viable as a percentage to total sick SSI units has decreased from 7.3 in 1991 to 6.1 in 1999.
The figures reported above do not reveal the actual status of sickness since the same include only those units which had obtained credit facilities from banks. A recent diagnostic survey conducted by the Office of the Development Commissioner (SSI) revealed that 86.7 per cent of the units have not obtained any bank finance. The units found potentially viable formed only a meager percentage of total sick units. This has necessitated a re-look at the existing guidelines and drawing up of revised detailed transparent and non-discretionary guidelines for rehabilitation of potentially viable sick SSI units.

Table II: Overall Industrial Sickness 1991-99

(Rs in Crores)

<table>
<thead>
<tr>
<th>As at the end of March</th>
<th>No. of Sick / Weak Units</th>
<th>Outstanding Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Both SSI &amp; Non-SSI</td>
<td>SSI</td>
</tr>
<tr>
<td>1991</td>
<td>223809</td>
<td>221472 (98.95)</td>
</tr>
<tr>
<td>1992</td>
<td>247924</td>
<td>245575 (99.06)</td>
</tr>
<tr>
<td>1993</td>
<td>240700</td>
<td>238176 (98.95)</td>
</tr>
<tr>
<td>1994</td>
<td>258952</td>
<td>256452 (99.03)</td>
</tr>
<tr>
<td>1995</td>
<td>271206</td>
<td>268815 (99.12)</td>
</tr>
<tr>
<td>1996</td>
<td>264750</td>
<td>262376 (99.10)</td>
</tr>
<tr>
<td>1997</td>
<td>237400</td>
<td>235032 (99.00)</td>
</tr>
<tr>
<td>1998</td>
<td>224012</td>
<td>221536 (98.89)</td>
</tr>
<tr>
<td>1999</td>
<td>309013</td>
<td>306221 (99.10)</td>
</tr>
</tbody>
</table>
# Table III-A
## Details of Sickness
(Rs. in Crores)

| Year (end March) | No. of units (in lakh) | In the books of scheduled commercial banks | | |
|------------------|------------------------|---------------------------------------------|---|---|---|---|---|
|                  |                         | Amount Outstanding against SSI | No. of sick SSI units (in lakh) | Amount outstanding against sick SSI | Percentage of IV to II | V to III |
| I                | II                     | III | IV | V  | VI | VII |
| 1991             | 19.48                  | 17938 | 2.21 | 2792.04 | 11.34 | 15.56 |
| 1992             | 20.82                  | 18939 | 2.46 | 3100.67 | 11.81 | 16.37 |
| 1993             | 22.46                  | 20975 | 2.38 | 3442.97 | 10.60 | 16.41 |
| 1994             | 23.88                  | 23978 | 2.56 | 3680.37 | 10.72 | 15.35 |
| 1995             | 25.71                  | 29175 | 2.69 | 3547.16 | 10.46 | 12.16 |
| 1996             | 27.24                  | 34246 | 2.62 | 3721.94 | 9.62  | 10.87 |
| 1997             | 28.57                  | 38196 | 2.35 | 3609.20 | 8.23  | 9.45  |
| 1998             | 30.14                  | 45771 | 2.22 | 3856.64 | 7.37  | 8.43  |
| 1999             | 31.21                  | 51679 | 3.06 | 4313.48 | 9.80  | 8.35  |

# Table III-B
## Identification of Potentially Viable, Non-Viable Units and Outstanding Amounts
(Rs. in Crores)

<table>
<thead>
<tr>
<th>As at the end of March</th>
<th>Potentially Viable</th>
<th>Non-Viable</th>
<th>Viability yet to be decided</th>
<th>Total</th>
<th>Of viable units those put under nursing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>O/S Amt</td>
<td>Units</td>
<td>O/S Amt</td>
<td>Units</td>
</tr>
<tr>
<td>1991</td>
<td>16,140 (7.3)</td>
<td>693</td>
<td>202,998</td>
<td>1,997</td>
<td>2,334</td>
</tr>
<tr>
<td>1992</td>
<td>19,210 (7.8)</td>
<td>729</td>
<td>223,336</td>
<td>2,256</td>
<td>3,029</td>
</tr>
<tr>
<td>1993</td>
<td>21,649 (9.1)</td>
<td>799</td>
<td>213,804</td>
<td>2,507</td>
<td>2,723</td>
</tr>
<tr>
<td>1994</td>
<td>16,580 (6.5)</td>
<td>686</td>
<td>234,265</td>
<td>2,842</td>
<td>5,607</td>
</tr>
<tr>
<td>1995</td>
<td>15,539 (6.5)</td>
<td>598</td>
<td>249,378</td>
<td>2,842</td>
<td>3,901</td>
</tr>
<tr>
<td>1996</td>
<td>16,424 (6.3)</td>
<td>636</td>
<td>240,168</td>
<td>2,944</td>
<td>5,784</td>
</tr>
<tr>
<td>1997</td>
<td>16,220 (6.9)</td>
<td>479</td>
<td>213,014</td>
<td>3,032</td>
<td>5,798</td>
</tr>
<tr>
<td>1998</td>
<td>18,686 (8.4)</td>
<td>456</td>
<td>199,634</td>
<td>3,297</td>
<td>3,216</td>
</tr>
</tbody>
</table>
There are numerous issues relating to rehabilitation. Firstly, there is widespread sickness in the sector. Nearly, 99% of the total sick units in the industrial sector in the country are from the SSI sector. Further, 22% of the total bank credit is blocked in these SSI units. It is disheartening to note that the percentage of the number of sick units in the sector has declined from 11.34 in 1991 to 6.1 in 1999. This indicates that banks have given less preference to rehabilitation of sick units in the SSI sector though sickness on the rise. Further, the number of sick units being found viable is also negligible. Hence, there is a major challenge before banks as to how to strengthen rehabilitation. Towards this end, there is a felt need to carry out a detailed study of sick units in the sector. In particular, it is appropriate to draw lessons from both successful as well as failed cases in rehabilitation.
References

1. Annual Reports of SIDBI, IDBI Ltd, ICICI Bank and IFCI for different years.
7. Report of the Committee to examine the Adequacy of Institutional Credit SSI Sector and Related Aspects; appointed by the Reserve Bank of India, 1992.