Chapter 8
Rehabilitation of Sick Units – A Survey

8.0 Introduction

In this chapter, it is attempted to discuss finding of a survey on sick units which were successfully rehabilitated. This attempt was in line with the broad objective of the study as stated in chapter 4. The purpose of the survey was to assess the role of banks in rehabilitation.

Industrial sickness can be defined as a phenomenon whereby a large number of units are unable to meet their dues to banks and financial institutions or service their debts due to deteriorating financial position for a variety of internal and external causes. Today, industrial sickness is not peculiar to any country or any industry. In advanced countries, treatment given to cure industrial sickness is different from that of developing countries. In advanced countries, with better security systems and abundant capital, the approach to sickness is to restore a unit to normalcy through restructuring devices within a short time or else, close it down. Such easy and straightforward options are not available for large labour abundant economies like India which can ill afford large scale unemployment either of labour or of valuable productive assets caused by sickness. Further, substantial funds of banks and financial institutions are blocked. Since, industrial sickness is increasing at a faster rate, everyone is concerned. In India, around 10 per cent of bank credit is blocked in sick units. Sickness in the small scale industries is much severe. There has been an incremental rise of around 30 per cent in the number of sick units in this sector. So, banks, financial institutions, Government and entrepreneurs are deeply worried of unprecedented growth in sick units and look for remedial measures.

To combat industrial sickness, a number of measures have been undertaken in India. These measures include uniform definition of a sick company, common criterions for assessing viability of the project of the sick company,
concessions to be granted in interest rate and promoters’ contribution by banks under rehabilitation package, concessions from government to a sick company (in respect of electricity, sales tax, excise duties, transportation rates, etc.), coordinated efforts by forming consortium of banks and financial institutions, creation of a separate Board for Industrial Finance and Reconstruction etc. This list of measures can go on.

8.1 Need for the Study

Despite the above mentioned measures, sickness in industries is on the rise. To elaborate, the rate of success in rehabilitation of sick units is less than 10 per cent of total sick units under rehabilitation scheme. This low rate of success has become a source for demotivation. No one would like to take initiative in rehabilitation activities. So, to motivate both financial institutions and entrepreneurs in rehabilitation exercise, it is worthwhile to bring to their notice of those units which were sick at one time but due to hardwork and the right approach of banks and financial institutions, the same were successfully rehabilitated. By studying such units, the banks and financial institutions would not only get motivated but also gain confidence in the task assigned to them. But such success stories or live cases are not readily available. Further, lessons from such success stories are yet to be drawn for the benefit of entrepreneurs, banks, financial institutions and the Government. Keeping these felt needs in mind, the study attempts to collect such rare cases from banks and financial institutions in India. In all, 15 cases were gathered. The analysis of these cases was done to draw lessons on rehabilitation.

8.2 About the Cases

8.2.1 During 2004-05, a series training programmes on ‘Effective Branch Management’ were organized at National Institute of Bank Management (NIBM) which were attended by 70 branch managers from different banks. It was attempted to contact them in the evening with a request to discuss their experiences in rehabilitation of sick
units. Just 15 out of 70 managers had the same. A separate discussion was held with these 15 branch managers to have the benefit of their experiences in rehabilitation. Each one was requested to discuss one case which was rehabilitated successfully. In consultation with them, it was decided to work out a criteria for defining a successful unit in rehabilitation. Accordingly, a unit is considered successful in rehabilitation if it is possible to recover the bank dues through the process of rehabilitation. Thus, a sample of 15 sick units was formed on randomly basis. Each case was found to be unique. However. It was possible to draw lessons. To facilitate the discussion with the 15 branch managers, a checklist of data/information was prepared which covers the following aspects;

1. Identification data i.e. location, year of establishment, constitution, products, industry, credit facilities enjoyed, etc.
2. Factors responsible for motivating the entrepreneur to start the unit
3. When did the unit start experiencing problems?
4. When was it declared as a sick unit?
5. Causes of sickness
6. Details of the rehabilitation package
7. Implementation of the package
8. Strategies adopted by the entrepreneur to revive the unit
9. Progress shown during the post implementation period
10. Involvement of the entrepreneur, banks and others in the successful rehabilitation
11. Latest position of credit facilities
12. Any other useful information to discuss about the progress of the unit after rehabilitation

8.2.2 The units included in the sample are as under:

1. A tiny unit in the SSI sector (1)
2. Ancillary unit (1)
3. Unit financed under Technocrat scheme (1)
4. Export oriented unit (1)
5. Unit financed under IDBI Rehabilitation Scheme (1)
6. Units in which death of a key director and takeover of management by his relative (2)
7. Units taken over by professionals (2)
8. Units experiencing project over run and falling sick at the infant stage (2)
9. Unit experiencing strained labour relations (1)
10. Units affected by recession in industry (2)
11. Unit was first considered for recovery through the court but subsequently it was decided to rehabilitate (1)

8.2.3 Other characteristics of the units in the sample are discussed below:

A. Eight out of 15 units came into being during 1970’s. All of the units are relatively old being in operations for the last 8 years or so.

B. Units in the sample are located in different parts of the country. Four of them are in Maharashtra. Others are from Tamil Nadu (3), Karnataka (2), Gujarat (2), West Bengal (2), Kerala (1) and Uttar Pradesh (1).

C. All units are engaged in manufacturing activities. Most of them i.e. 7 out of 15 are in engineering industry. Other industries in which units are engaged include electronics, textile, garment and hosiery, paper, flour mill etc.

D. Most of them i.e. 11 out of 15 units are private limited companies. Four are proprietorship concerns.

E. All the units have sought finance from banks, state financial institutions, and other government sponsored financial institutions except 3 units which raised term finance from term lending institutions.

8.3 Findings of the Survey

8.3.1 Estimated period required for declaration as a sick unit from the date of occurrence of cash losses:

It was attempted to work out estimated period taken by the bank
to declare each one as a sick unit from the date of occurrence of cash losses for the first time. It was found that the period varied from one case to another. Most of the cases i.e. 9 out of the total, were declared ‘sick’ within a period of just a year or two from the date of occurrence of cash losses in the books, for the first time. In other cases, the period was around 3-4 years. It was also found in these cases that occurrence of cash losses was continuous and therefore, their equity was eroded by more than 50 per cent in a short period of 2-3 years.

8.3.2 Causes of Sickness

Major causes of sickness of units include project over-run, demand recession, labour problems, unfavourable government policy, death of a key director, non-availability of raw materials and other inputs, managerial deficiencies etc. In two cases, sickness occurred mainly on account of external forces on which they had no control. Such external forces include death of a key director and liberal import policy of the government. In other four units, sickness was due to partly internal causes (lack of understanding among directors, strained labour relations, non-availability of raw materials on timely basis due to improper planning, slow recovery of dues from customers etc.) and partly external causes (market recession, unfavourable government policy, stiff competition etc.). In remaining cases, i.e. 9 units, sickness was on account of internal causes and project over-run was quite common. The project over-run was due to improper planning and ineffective co-ordination and control. In 2 out of 9 units, sickness arose when workers went on a strike due to unhealthy attitude of the entrepreneur. On the whole, it was found that 12 units fell sick due to internal causes and managerial deficiencies in key functional areas was predominantly found.

8.3.3 Nature of Rehabilitation Assistance

Banks / State Financial Corporations prepared the rehabilitation scheme keeping in mind norms set for concessions, reliefs etc. by the
The nature of assistance was not common. Concessions and reliefs are in the form of waiving of penal interest rate, funding of unpaid interest on cash credit and term loan and of uncovered portion of irregularity in the cash credit account, rephasing of overdue instalments of term loan, meeting of cash losses till the unit breaks even, relaxing terms and conditions such as low or nil margin longer moratorium, lower interest rate, assessing working capital on need basis and low contribution from promoters. In most of the cases, certain concessions were common which included funding of overdue interest, rephasing of overdue instalments, creation of Working Capital Term Loan (WCTL) and irregularity in the cash credit to meet cash losses. In one case, interest charged until the commencement of business was refunded because the unit became sick mainly due to application of interest. In this case, there was a project over run by two years. In two cases, promoters’ contribution was as low as 5% of the total working capital limits. In other two cases, the penal interest was waived. Additional sanction of working capital on 'need basis' was commonly observed. Similarly, in many cases, fresh sanction of term loan was accorded by financial institutions for the purpose of modernisation of machineries. In two cases, change of management was considered as a part of rehabilitation.

All units were found to be happy with the rehabilitation package which was well suited to meet their requirements. To work out the right kind of package, it is necessary for a banker to have a thorough understanding of the sick units. This understanding should not only relate to working of the units but also of their financial structure and projected cash flows. Thus for revival of sickness, it is desired to work out the most appropriate package of rehabilitation.

8.3.4 Strategies Adopted by the Units for Revival

Units in the sample adopted different strategies for revival keeping in mind the main causes of sickness. These are discussed as under:
(a) Diversification: Seven out of 15 units went in for diversification in different forms. Three units changed the product line since demand for the existing product/s was inadequate. For this kind of diversification, existing resources (machineries, materials and workforce) were utilized. The other type of diversification was of shifting from manufacturing activities to job-work. This need was felt necessary because, the manufacturing as an activity, was found uneconomical. This observation was made in two units. One unit diversified its concentration from exports market to local market in view of the fact that the demand for exports was declining sharply. In other unit, there was a shift in concentration from local market to exports market.

(b) Change of Management: Change of management as well as ownership was inevitable on the death of an entrepreneur. In one unit, upon the death of the entrepreneur his wife stepped in. She was found to be equally competent and highly committed. Naturally, she was able to revive the unit. In another case, a son of an entrepreneur was inducted on the death of the latter. In this case also, incoming entrepreneur was highly competent and adopted modern methods of management. Therefore, the unit was fully revived. In three cases, professionals were introduced to revive the units. In the context of change of management it is worth referring to one unit in which case, a newly inducted management decided not to accept any remuneration from it until bank loans were fully repaid. One more unit is interesting to refer here. Bank filed the court case for the recovery since the management was not competent. But, when the management was changed, bank withdrew the case from the court and rehabilitated the same. There was a positive response to the efforts put in by the new management. Thus, the unit was revived.
(c) Finance: There are two units which became sick due to shortage of funds. Having realized the need for funds, the concerned entrepreneurs managed to bring in additional funds from friends and relatives. These funds were not withdrawn until the units were fully revived.

(d) Technical Aspects: In one unit, rejection of finished goods was on the higher side. It was rightly decided by the entrepreneur to modernise machineries and, when the same was done, it was revived. In another unit, there was project over-run since the required machinery was not made available in time. The machinery was imported one. Consequently, the unit became sick but the entrepreneur decided to go in for a second hand machinery which was locally available. With some minor repairs, the machinery started functioning. With this arrangement, the unit was revived. In one unit, cost of production was on the higher side. With the introduction of improved technology, the cost reduced. Subsequently, the unit was revived.

(e) Labour: In one case, workers went on strike for a long time due to unsatisfactory attitude of the entrepreneur. On the death of the entrepreneur, his son was inducted to the unit who adopted altogether a different approach towards workers. He was able to pursue the workers to come for the work. He also counselled them adequately. Consequently, the unit was revived. In another case, productivity of the workers was very low. The entrepreneur rightly decided to offer incentives on the basis of output. This was proved to be a major source of inspiration. Consequently, the productivity of workers improved significantly. Thus, the revival of the health of the unit could take place. It is worth to know that in the same case, the concerned court authorities granted retrenchment of workers.
which also proved to be a useful remedy for revival. Entrepreneur of the unit presented his case so well before the court authorities that his request was considered here, a lot of home work relating to economics of retrenchment was done.

(f) Others: There are some more strategies adopted for revival. One unit decided to purchase a generator to overcome the power shortage. This was a right decision leading to the revival of the unit. In another case, shortage of raw material (raw steel) was the main cause of sickness. The unit rightly decided to become a subsidiary of a mini steel plant. This led to revival of the unit. To improve the quality of the product, one entrepreneur hired the services of a consultant who suggested various ways for improving the quality. When the consultant’s report was implemented, the quality of the product improved. Thus, the unit was revived.

The above mentioned strategies are few in number. There can be some more strategies depending upon the nature of sickness. For selection of the right strategy, it is necessary to diagnose causes of sickness correctly.

8.3.5 Time factor

In the context of revivals of sick units, time factor is the most important one. The revival can take place if decisions are taken at the right point of time. It is necessary to have a time bound programme for different aspects of rehabilitation which include detection of sickness, conducting a viability study, preparation of proposal for rehabilitation, implementation of the proposal and monitoring of the project. It was found in the units, under the study, that entrepreneurs paid sufficient importance to the time factor. They were found to be eager to get their units revived soon. Therefore, the proposals were submitted on timely basis. Banks and financial institutions also adopted a time bound
programme which is broadly indicated for various items of work as
under:

- Conducting of viability study: 1 month
- Preparation of rehabilitation scheme: 1 month
- Disbursement: 1 month

The above mentioned time schedule was followed in most of the cases. Thus, it can be concluded that for revival of sickness both entrepreneurs and bankers have to adopt a time bound programme to carry out different aspects of rehabilitation.

8.3.6 Profile of Entrepreneurs

It is interesting to study the background of entrepreneurs. They were found to be hard working which was evident right from the stage of detection of sickness till its cure. They were found to be highly committed and therefore, they were prepared to sacrifice even their gains. They didn’t expect any return from the unit until it was revived. Their integrity was undoubtedly of higher order. This was considered as a basis for providing financial assistance to the units. It was also found that there was a fair understanding among the directors of the units and, therefore, decisions were taken promptly. Further, the group of directors was well balanced in terms of expertise. Entrepreneurs were found to be open to banks and financial institutions. This helped in establishing a better rapport between the two. They were found to be cooperative to the financial institutions in supplying the required information and complying with necessary formalities. They were found to be risk takers and, therefore, decisions were taken promptly. They were also found to be aware of modern methods of management and practiced the same. Finally, the entrepreneurs had pleasing manners and therefore, they were given better treatment by all the outside parties.
8.3.7 Role of Banks and Financial Institutions

It is worthwhile to talk about the role of banks and financial institutions. In all cases, it was observed that there was a good understanding between the entrepreneurs and the banks. Bankers’ attitude towards entrepreneurs was quite satisfactory. Banks were found to be more liberal and helpful while chalking out the rehabilitation package. They were found to be very quick in decision-making. In one case, the required sanction was given within a period of just one week. Further, at the time of preparation of the scheme, they had total perspective of the units. Therefore, they suggested to modernise management besides replacing old machinery. They took up risk on many occasions. Upon the death of an entrepreneur, his immediate successor (wife) was considered to take over the unit. Banks gave the required assistance even under those circumstances. In one unit when the court granted the decree, the bank rightly considered it for rehabilitation taking into account the benefits of rehabilitation. With the change of management, the unit started operating nearly at full capacity. It also became a profit making company.

They were consistent in their approach to rehabilitation all through the period of revival. They were not only a financier but also a counselor to the unit. Their advice on money matters was very much rewarding to the units. There was a good team of banks and financial institutions which shared the related work. Co-ordination between banks and financial institutions was of high order and therefore, credit decisions were taken timely. Finally, bankers were found to be alert during the period of post sanction. They maintained a close supervision of the factory and operations in the bank account. Consequently, the end-use of bank funds was fully ensured.
8.4 Lessons from Success Stories

8.4.1 Rehabilitation of a sick unit should be considered as a rare occasion and therefore, every one concerned with it should be serious in dealing with the related matters. Their seriousness should also be seen right from the stage of identification of a sick unit till the same is successfully rehabilitated.

8.4.2 On occurrence of a sickness, everyone gets affected. May be, some are badly affected while others may suffer marginally. Therefore, all those involved in rehabilitation exercise have to necessarily make sacrifice. This applies even to the promoters, government and workers.

8.4.3 In addition to the required sacrifice expected from all the concerned parties, it is equally important to adopt a right strategy for revival of sickness. Selection of the strategy primarily should depend upon the nature of sickness. It is also necessary to consider cost implications, competence of management, moods of workers etc. so that the strategy so selected for revival is widely welcomed.

8.4.4 For early revival, all work related to rehabilitation has to be time bound. For which, the role and responsibility of banks, financial institutions, entrepreneurs and the government should be properly spelt out so that it is possible to avoid delays in preparation and implementation of the scheme.

8.4.5 Rehabilitation is basically a team work and therefore, members of the team including entrepreneurs, consultants and the government have to put in co-ordinated efforts to implement the project. In particular, co-ordination between banks and financial institutions on one hand and banks and government, on the other, has to be ensured.
8.4.6 Banks and financial institutions are expected not only to supply timely and adequate finance under rehabilitation but also to offer counselling services to the entrepreneurs at various stages of rehabilitation. This need is very much felt in the case of small sized firms.

8.4.7 To complete the process of rehabilitation, it normally takes 5 to 7 years. It may happen that the unit under rehabilitation may suffer due to natural calamities including death of a key partner/director. In that case, all other parties have to adopt a sympathetic approach to the firm and extend necessary co-operation.

8.4.8 Wherever, default in repayment of loan is deliberate one, stern action is expected by banks and financial institutions including filing a suit immediately. There should not be any delay in this regard.

8.5 Conclusion

Mere introduction of rehabilitation scheme / package of concessions will not assure successful revival of a sick unit unless the attitude of banks, financial institutions, government, healthy companies etc. is positive. Similarly, sick companies should look at rehabilitation as ‘one time opportunity’ given to them during their life-span and, therefore, they should endeavour to regain their lost strength with a high degree of commitment and professional approach. When these expectations are fulfilled, the present rate of success in rehabilitation can be enhanced effectively. There are already many success stories in this regard. So, let everyone march on for reviving each eligible sick unit as early as possible to make our industrial economy more healthy.

The survey on sick units reconfirms that timely and adequate supply of bank credit enabled the sick units to rehabilitated successfully. Had this not been assured, there would not have such success stories. It is also true that credit
is one of the inputs required for rehabilitation. But it is a critical input. Thus, the hypothesis of the study is further tested by going through the success stories on rehabilitation. In the next chapter, it is attempted to discuss findings of the survey of Chiefs of SMEs in banks.