Chapter XI: Profiles of the Industrial Units assisted by the MDC.

- Introduction
- Salient features of the Industrial Units
- Pattern and Structure of Investment
- Capacity Utilization
- Raw Material Shortages
- Credit Needs
- Funds for expansion
- Technical Skill
- Problem in Marketing
- Other areas creating problems:
  a) Selection of Production Lines
  b) Market Survey
  c) Maintenance of books of accounts
  d) Detection of losses
  e) Labour Problems
  f) Generation of Internal Surplus
  g) Unsteady Production
  h) Cost of Production
  i) Repayment Scheduled of borrowed Funds.
Introduction:

The MDC has financed or caused to finance to the several thousands of the business units under various schemes such as seed money assistance, package programme schemes, loans to educated unemployed, loans to cooperatives, etc. It is very interesting to have a view on all these such industrial units covering the areas like production, finance, profitability, marketing, etc. Hence it was contemplated to cover all such units by conducting the experience survey at the areas such as Nanded, Parbhani, Manawat, Latur, Udgir, Aurangabad, etc. Similarly the offices of the MDC and Industrial Department of the Governments were also contacted to get the information. The financing institutions were also visited for ascertaining their views about the industrial units of the Marathwada. During the course of the survey the facts which were repeatedly noticed about industries were given deep thought and the information on the same is presented ahead in the form of Panorama or Profiles.

1. See First Chapter on Research Methodology for detail explanation.
Salient Features of the Industrial Units:

The following salient features were noted down about the industrial units under the experience survey:

- There was a proclivity to organize the business either on proprietary or partnership basis so as to keep the control of the business in the hands of one or two families. Even where the private limited were founded, the control of the units was in the hands of few members of the families having blood relations. The cooperative ventures were very few in number.

- The majority of the units was emerged after the mid-seventies on account of the Government Policy to give the acceleration to the industrial activities.

- The sick units in the most cases were mono-product units, whereas the healthy units were with product diversifications causing to keep the units viable.
The plant location decision was emerged out of the consideration of the Government assistance or assistance released through the various Government sponsored agencies like MDC, MIDC, etc.

The entrepreneurs of sick units were in the business with no previous experience whereas the entrepreneurs of viable units were with the adequate family background of business and hence they could have experience of the concerned field.

Generally the infrastructural facilities were available at the sites. However the transport facilities were limited in number causing much disturbance to the units. Especially as regards to Broad-gauge railroad absence, the much inconveniences were reported.

The tendencies were noticed that to undertake the production in an anticipation of the demand. This may lead to the cases of over-production in the respects of many units which then had to go as sick on account of accumulated stocks of finished products or on account of sale at lower prices.
The general educational levels of the management staff including owners was found to be appreciating. The most of owners of viable units were having the background as Trading castes. As contrast to this the sick units mostly belonged to other than the persons from the trading castes i.e. farming, low service castes etc.

The owners of the industrial units had sufficient knowledge about the various schemes of industrial promotion which were sponsored either by the Government or the agencies like MDC. However there were general reluctance to go far seeking the benefits from such schemes as the schemes used to entail inordinate delay in getting the things done, As pertains to the training programme of the MDC, there had been dis-favoured by many.

Most of the owners tried to keep their units away from the purview of factory act by showing the size of unit small on paper.
Pattern and Structure of Investment:

Fixed capital investment of the units was consisted of land, building, machinery, etc. The items of fixed cost were valued at purchase price. In most of the units, the plant and machinery appeared as the largest item of investment. The investment on this account was made by seeking the financial assistance from the lending institutions including the commercial banks.

The second major item of investment was the land and building. Surprisingly the most sick units were found to have been investing sizeable amount in this type of assets. As reverse to this, the healthy units had sizeable investment in the plant and machinery.

Capital mix which was used for financing units was varied from unit to unit. A solid proprietary interest in the capital is deemed essential. However this was not the case as pertains to many units. The commercial banks, SICOM, MSFC and such other agencies had prominently assisted the units and hence the capital mix was dominated by such lending institutions. The
private loans from the money lenders or relatives did not reveal any significant place in the capital.

Almost three fifth of the units contacted in the experience survey received the full amount of loans for the investment in fixed assets. The rest of the units were asked to meet the short fall in the loans from the other sources. They met the short fall of the loans either from the own sources or sources like friends or relatives. However the money lenders were not seen to be tapped for such assistance. Some of the units those envisaged the short-fall in the total loan requirements, had to cover their short-fall of loan by keeping the size of the plant small below the requirements. This had led to contribute the cause for sickness of the units.

Reporting about the overcapitalization of the industrial units was almost nil. The sick units were found facing the state of undercapitalization whereas the healthy units were comfortably in the state of fair degree of capitalization.

As pertains to routine expenses of the units, the expenses on the raw materials were almost half of the total production, selling and distribution expenses.
The expenses on salaries and wages were just 5 to 7 percent of the total expenses. There was tendency to spend less on advertising.

The case as pertains to working capital availability was better in the healthy units and worst in sick units. The healthy units had found receiving the adequate and timely bank finance.

As regards the outstanding loans, the sick units had a greater burden of outstanding loans as compared to viable units. The units in profit had a tendency to reduce the outstanding loans whereas the units in losses had a tendency to increase the outstanding loans.

Capacity Utilization:

It needs to be mentioned here that in the most of the cases the enterprises were operating well below capacity for several reasons. An analysis of the information under experience survey shows that the majority of the units were operating below 50% of the installed capacity. Hardly 10 to 15 percent enterprises were found functioning above 80 percent of the installed capacity.
A ward of caution is perhaps due here. The concept of capacity is in itself tenuous. One is not sure on what basis this is estimated and what level of efficiency of operation. In cases where multi-products are involved, capacity is often expressed in terms values. This, however, does not convey much. In few cases the entrepreneurs admitted that it was rather difficult to estimate the extent of utilization of capacity. Looking to this difficulties, the capacity of the enterprize is measured or evaluated in the light of formula given in chapter XII on page No. 527 of this thesis.

The Broad conclusions drawn with the help of above formula is that the most of the enterprizes were not producing as much as they could have, for one reason or other. The casual factors mentioned in connection with the under-utilization of the plants were the shortage of raw materials, inadequate finance lack of demand, obsolete equipment etc.

Raw Material Shortages:

The extent of availability of raw materials varied from industry to industry but it was reported that inadequate supply was the most important bottleneck
in most of the cases. Such raw material, for example, may be stainless-steel for surgical instruments, acrylic for plastic products alloy electronic wire for electronic units etc.

The basic problem was non-availability of the requisite quality and quantity of raw materials. Where allotment were made, they were repeatedly well below requirements, in several cases hardly sufficient to work 30 to 40 percent of the capacity installed. In such cases the units were forced to operate below the capacity. Sometimes in order to meet the problem of raw material inadequacies, the same is purchased from the open market at escalated prices, often 40 to 50 percent higher than the control prices. The result is that in the most cases the units were required to work with cost disadvantage where the traffic could bear, (as in the case of some units producing the copper wire) this was passed on to the consumer. In the cases where the competition was rife or demand was slack, such transfer of burden was not found feasible.

It was generally reported that shortages in raw materials in several cases were to the large extent 'Created Shortages'. The fact that was reported that
the enough supplies of raw materials of the various kinds could be had at price. The shortages are normally arose out of basically improper allocation of materials. The normal allocation mode on the basis of capacities was criticised by many as rather unscientific. It was remarked that there had been no proper assessment of capacity in the case of small enterprise. In fact it was mentioned by many that it was rather difficult to assess properly the capacities of the plant of several categories. Many felt that the capacities of the plants existed only on the paper. Capacity figures were reported purposely at inflated levels so as to get higher benefits. The common complaint was that there was no attempt to check genuineness of quotas asked for. Irregularity in allotment were also frequently mentioned.

The failure of domestic production facilities or import arrangements was the cause also to obstacle the supply of the raw materials. Such shortages, especially the import inadequacies of the materials could be met by the imaginative import policy which was totally absent. For direct imports, there were the usual complaints of lengthy procedural formalities to
be adhered to and numerous agencies to be contacted. Added to this, the enormous time exhausted to secure the import licence had made the situation worst. It was reported that the importers had to spend a time range between six months and 36 months to get the import licence. As a result the enterprise went into losses. The most of the import based producers of the products were found anxious in holding large size of the raw materials of imported items so as to avoid the future shortages. This naturally had led to increase the holding cost of the materials to be used for the production. A few units in auto ancillaries were reported holding inventories as high as 8 to 12 months.

Allotment of raw materials on the basis of past consumption also came in for criticism as it was mentioned that this was not provided any scope for expansion.

Credit Needs:

Ranking next in importance to raw materials was inadequate credit facilities. These needs may be of two types i.e. needs for long term finance for purchase of machinery and equipment and short term finance for
meeting the needs of working capital. The former are generally met from own sources and from term lending institutions.

The units contacted were normally found aware of the institutional facilities available for provision of long term finance. But the common complaint in this connection related to various procedural formalities one had to face in ordinate delays in getting the final sanction of the loans.

Another problem frequently mentioned in connection with the long-term finance was its terms of repayment, which are generally commenced one year after the sanctioning of the loans. The units felt that it generally required five to six months to install the machinery and another three to five months to get the raw materials, trained labours, sales etc. As a result the units were not in a position to face the repayment of loan scheduled which normally starts as soon as the one year is completed to sanction of the loan.

It was also felt that there has been no proper arrangements from the part of institutions to supervise the post-allocation period of loans. Naturally the
financing institutions could not understand the difficulties confronted by the units. In view of this difficulty or inconvenience, some units had a practice to approach local financing agencies like commercial and urban cooperatives banks. They felt that the local agencies on account of frequent contacts were more aware about their problems. As a result, the units preferred to get assistance, if possible, from the banks even at slightly higher interest rates.

With little resources to fall back upon, most of the units were found to depend their working capital needs on the commercial banks and non-institutional sources. Where sale of credit was called for in 'sport goods', "hosiery" and 'paints and varnishes' and realisation of sales took time, the units were found in need of funds to carry their business. In case the necessity of large stock of raw material had been prominent, the unit's problems of finance had found aggravated.

The common complaint heard in connection with bank finance too was in regard to the procedure, the delays in sanction and the inadequate amount of sanction. While some of these complaints were no doubt genuine,
in some cases they were exaggerated. Within the same industry group it was found that a few units could obtain as much assistance they could from the banks as long as they were able to fulfil formalities. In some cases problems arose either due to poorly documented applications or where the units were not in a position to submit the certified quarterly statement of financial accounts which was normally called for. The reason for shyness in submitting this statement was that the business operations were kept unrecorded in view of fear of sales or income taxes.

In some cases the banks had rejected the loans as they were not sure of credit worthiness of the parties concerned or did not have proper system of evaluation and hence decided to play safe. In a few, loans had to be rejected as there were specific restrictions in granting the advances against the few items. Where the banks had doubts on the prospect of a particular line of production, they were generally found to hold back. No generalization, however, could be made on the performance of the banks, as much depends upon the initiative of the various agents and their relationships with the small industrialists. It
was frequently heard, however, that a changed in the attitude of these agents, unfortunately for the worse, after nationalization was in evidence.

Apart from system flaws in sanction of loan, a few other problems were often mentioned in this context. One was on the system of valuation adopted by banks, where especially, iron and steel involved. It was stated that the unit was often forced to buy the raw material in the open market at higher prices, whereas the bank had a practice of the valuing the same at controlled prices quoted by the Government. This practice naturally in sanctioning the low size of loans against the stock.

Another problem reported by units manufacturing rubber products was that the dies were not regarded as part of machinery by the banks for giving loans. Some units mentioned that the restrictions placed, in practice though not on paper, on their having transactions with more than one nationalised banks were posing difficulties for them.

As respect of bank finance that needs mention here that the banks are unable to cater the expenditure
requirements of the small units. Because of this, it was stated that the industrialists were forced to depend on non-institutional sources and borrow at higher rates of interest. But it must be pointed out here that more often than not the practise was to accept huge deposits from friends and relatives, and at times, from the partners themselves, at high interest rates, which incidently reduced the tax liability of the enterprize.

The general feelings, however, was that the banking system should be properly geared to cater to the needs of the small industrialists. Efficient administration, speedy disposal of applications, acquisition of expertise in appraising application and adoption of a need based approach are some of the factors that merit attention in this context. On the part of units there is a need to keep fair dealings in the system of accounts as this facilitates the banker to evaluate the loan requirements of the units in the light of legal requirements.

Funds for Expansion:

Almost one fifth of the units surveyed felt that there was scope for expansion of production and
diversification of several lines provided they would have the necessary credit and raw material availability. In most cases the demand for foreign exchange was found evident. The bankers, however, had no arrangements to provide the funds for expansion of the business units. Some units though desired for expansion did not undertake the same on account of faulty planning of the business. Some units, though had capital for expansion, did not possess technical manpower. In many cases the raw material constraint was the cause to hold expansion. The MDC was also reluctant to do anything for the business units which longed for expansion.

**Technical Skill:**

During the experience survey it was found that most of the enterprises were equipped with the requisite technical skill or had acquired the same over a time period. Most of them were also found aware of the institutional facilities which were available for securing the technical guidance or training. The MDC's training courses were known to them. However it was opined that such courses were of no use since they could not provide the technical training required for
the specific product or production. The market or production feasibilities studies which were done by the MDC on behalf of its clients were, in the most cases appeared impracticable. There were much differences in the reports submitted for procuring the finance from the lending institutions and the actual realities which were faced by the business units. As regards to common service facilities in few business units, it was stated that the units were not willing to approach to them because of the inordinate delay in getting the purpose served.

Problems in Marketing:

Marketing Management is specialised job involving techniques of demand creation and sales promotion. In the majority of cases, small industrialists, did not have training in this regard. With limited size of operations and finance, many were unable to hire the expertise in sales promotion. Hence in many cases the units had unsatisfactory sales arrangements. Often units were found dealing with more than one distribution arrangements right from sole selling agency to direct selling to consumer. Very few units were having separate sales organization.
Even with the above limitations, the small units were successful in competing the big units. The success is probably due to the fact that the Indian Market is vast, with several strata of consumers demanding the products of different types and quality.

Based on the type of products manufactured and the marketing arrangements in vogue, the following three groups could be made for the purpose of analysis:

i) Producers of mass consumption articles such as hosiery, processed foods, wooden and steel furniture, domestic utensiles, sports goods and such other items.

ii) Ancillary and intermediates produces manufacturers i.e. automobile parts, copper wires, ACSR conductors, cement products, machinery parts etc.

iii) Capital equipment manufacturers.

In the first category the units have to establish rapport with the consumers and make their products marketable. On examination of the products and its marketing practices, it was found that the units had to localize their marketing on account of consumers' choice.
differences from locality to locality or on account of huge transportation cost. In these fields the small units were to face the intense competition for exploiting the larger share in the market. The brand names in such market had very little influence. Attractive designs, elegance in finish supported by sufficient publicity with the retailers and credit facilities to retailers were the dominant factors contributing the success. Small units with easy access to market and feedback of consumers could have intimate knowledge of the consumers' satisfaction or dissatisfaction for the necessary change in the product quality, price etc.

Where the small units were to compete with the branded goods or with the consumers scattered over the wider areas, marketing was found to pose a critical problems. A typical example was the domestic electrical appliances. The small units with the limited resources could not undertake the sales promotion activities nor they had sufficient skill to capture the market. The units under such case had found sheltering the reputed dealers of a particular locality by selling to them at concessional rates. If the turnover scale was large, this approach was found beneficial.
On the basis of marketing arrangements, the units in the second category could be sub-divided into two broad groups, viz., producers of original equipments and other specializing for the replacement markets. The production programmes of the units in the former were intimately connected with the manufacturing plans of the parent units. The tie-up arrangements were differed from unit to unit. In some cases the entire production was lifted by the parent unit or in some cases the part of the production was lifted by parent unit and the rest of the production was sold in the open market. Any fluctuation in the production plans of parent units naturally up set the working of small units which were entirely based on parent units. It was noticed that small ancillary units fully depending on the parent units were with no planning on their own account in the events when the parent or main units stop demanding the products. Such stoppage has an element of creating the wide spread recession over the particular gamut of industry, for example, oil engine spare parts manufacturing units. Added to this i.e. no alternative arrangements of supply in the other markets, the delayed payments made by the parent units obstructed the smooth functioning of the units.
Vast replacement market has given birth to other category of units, those producing the variety of products (such as spare parts for automobiles, fans, machinery etc.) to be sold to individual consumers through the retailer or through the normal marketing channels. This was found to be very keenly fought battle field, in view of the intense competition from large and medium industries. The price differential of branded articles and others was very large. The small units were able to sale at very low level, since their low administrative and selling cost. However they do not offer any guarantee about the performance of their products.

For third category of units manufacturing capital goods the sales problems, though arising on limited size of sales operations were of very serious nature. After sales service was found the necessary evil for capturing the market and the small units did not have such arrangements. Where the geographical spread of the market for capital goods was wider, the units producing the capital goods had found relying on the distributors. For products like improved agricultural implements where demand was to be created, the small units faced immense
difficulties. The Government agencies helped especially in the promotion of modern agricultural implements by subsidizing the purchases and by liberal grant of loans to consumers. Withdrawals of these facilities in respect of some products created the problems for small industrialists, who could not undertake its own promotional efforts to sale, and could not offer the credit facilities for boosting of the sales. Wrong phasing of the purchases by the various Government Departments had also distorting factor to small units while selling the capital goods.

Other Areas
Creating Problems :

(a) Selection of Production Lines :

An appropriate selection of the product line is very important for the viable functioning of the business. The decision to produce a particular product should not become outdated in near future. In selecting the product line, the MDC is also supposed to issue the directions. It is very interesting to know that how the various factors had influenced the selection of a particular product by a particular unit. The selection of the product is normally made by the entrepreneurs
themselves. Almost more than sixty percent units investigated had made their own decision in selecting the product line. In the case of others the decision in this matter resulted after consultation with the MDC, with the members of family, with the industrial departments of the state, with the friends, with the advice of the consultants in the field and with the other persons who were already in the production line for which the entrepreneur had attraction.

(b) Market Survey:

It is always thought necessary to undertake the survey of the market for the product as this assists the entrepreneurs to know the market thoroughly. The number of enterprizes undertaking the market survey before instituting the product in the market, however, was very few. Only one third of the total entrepreneurs questioned over this issue, undertook the market survey for their products.

The entrepreneurs taking the financial assistance from the financing institutions had to prepare the project report for their business. Almost all the reported that their project reports were emerged only
out of formalities to be completed for securing the loans. However in the actual practice they did not get any benefits from such project reports. The figures in such reports were reported to have been inflated for procuring the maximum loans and facilities from the Government.

(c) **Maintenance of Books of Accounts:**

The methods of account keeping in the case of most business houses was not satisfactory. Many had relied for such purpose on the tax consultants who prepared the accounts on annual basis for submission of them to the concerned department of the Government. Many business-men treated the account books as mere formalities to be completed for the income tax or Sales Tax purposes.

(d) **Detection of the Losses:**

The detection of the losses at appropriate time is very necessary for keeping the business operation smooth. It is noticed that the losses in most cases were located or detected after much laps of time normally after six to eight months. Some business units
had profits only on the books of account but in actual practise they had no cash in hand since the cash payments against the sale were to be effected. The credit sale was the reason to affect the financial soundness of the business units since the bills were paid after much lapse of stipulated time.

(e) Labour Problem:

Many had grievances about the labour. The workers had a habit of changing frequently various jobs. Since the workers were not at one place of working, they did not found to have been skilled in a particular job. This situation was annoying to many entrepreneurs as they found very inconvenient to do with new workers. All the entrants used to get knowledge about the jobs and after some times, when they got other opportunity ran away from the unit and took other jobs.

As regards to reproductivity of the workers, the entrepreneurs were not found to have been expressing satisfaction. It is reported that if the productivity of the workers had to increase, the number of consideration had to be taken care of, such as use of labour saving devices, adequate training to the workers,
existence of internal and external economies of the production etc. However, the case as regards to this was not satisfactory in the most of the business units. As a result the productivity of the labour was found lower.

The various labour legislation protecting the interest of the labour came in the way of the smooth functioning of the business units. The employers were also found to get exchef from the requirements of labour laws. There had been constant tug of war as between employers and labour in regard to this. This had naturally a cause to disturb the production schedule of the units.

(f) **Generation of Internal Cash Surplus**:

Failure to generate enough cash puts many obstacles for unit. The inadequacies of cash were due to reasons such as unplanned payments to creditors, temptation to hold high inventory, unproductive and flamboyant expenses and untimely payments made by the debtors. The payments against the goods supplied to Government were often reported to be delayed and hence the small entrepreneurs very rarely go to supply the goods to the Government under the fear of late payments.
(g) **Unsteady Production**:

If the unit is unable to carry the production smoothly, the entire functioning may go into losses. About more than one half of the units surveyed were found to have been facing the problem of unsteady production on account of several reasons such as frequent machines break down and poor maintenance, poor quality of raw materials, poor labour productivity, lack of proper production planning and control, delayed supplies of the raw materials, and poor industrial relations. Among all these reasons contributing the obstacles to production, the delayed supply of the raw materials was the most vividly seen in the respect of majority of the units. If we take into account the industry-wise data about delayed supply of the raw materials and obstacles in the production, the engineering industry stood at the top. There had been often the shortages of iron and steel, coke and coal which were required by the engineering industry for the purpose of production. The production of the cement products units was found to have been held on account of the shortage of quality cement. Some units were experiencing the shortages of the raw materials on account of the poor availability of the working capital with them.
(h) **Cost of Production**:

Increase in the cost of production can due to inability to make optimum use of resources or due to increase in general price levels. Some increase in the cost of production is inevitable and tolerable. However if the cost escalation affects the working capital of the unit, the situation becomes worst. Nearly one third of the units surveyed were experiencing this situation.

(i) **Repayments Scheduled of Borrowed Funds**:

The units were asked to state whether in their opinion the repayment schedules of the term loans and other bank borrowing were convenient or not? Most were unsatisfactory over this. They found that the loan instalments to be paid were of high level and untimely. In fact in the case of sick units, a need was envisaged to suspend the repayment schedule till the units got the position of revival. However there was no such arrangement.