PREFACE

The last decade has witnessed a sudden upsurge in the incidence of corporate failure in the industrial scenario of India and the Indian corporate world has suffered the most difficult times in its history. An increasing number of companies, public and private, both in large and medium as well as in small scale sectors are falling prey to the melody of corporate failure. New jobs have not been created. Small scale industries have suffered to the point of extinction. Not only some of traditional industries like cotton, jute and sugar, have been afflicted with sickness but even some other important industries like engineering, chemicals, iron and steel, rubber, cement and paper have been affected. The resultant effect of sickness through loss of production, capital and employment. It has brought much panic to owners, the financial institutions, the government, the investors and the employees. A developing country like India with her limited resources and high levels of unemployment can not absorb the ripples caused by the closure of the sick companies.

Unfortunately, the various measures undertaken in past as well as in present by the government to combat the menace of corporate failure has not brought in the desired result. Corporate failure is not only the matter of technology or management failure, it has also occurred due to the changing ways of doing business, evaluation of e-commerce, the telecommunication revolution, lower tariff regime and WTO (World Trade Organisation). In order to reduce this kind of undesirable economical effect, one wonders whether corporate failure does not possibly be predicted. Corporate failure does not come suddenly, it is a process that evolves over a considerable period of time. With awareness of some warning signs, it is possible to take corrective action to prevent the ultimate failure. The present study is an attempt to study the important determinants of sickness in Indian industries and designs the fore warning models with the help of financial ratios to
predict corporate failure so as to alert the management to take timely corrective measures to avoid the irreparable losses caused by corporate failure, because 'a stitch in time saves nine'.

In the present research work an attempt has been made to identify the best of financial ratios which can be used as an effective indicators to develop the forewarning models so as to predict the corporate failure in Indian industrial sector at least five years before the event i.e. for corporate failure. Four predictive models for four industries i.e. basic goods industry, capital goods industry, intermediate goods industry and consumer goods industry have been developed to predict the financial health of companies belonging to these industries. The models predict the corporate health of the sample companies with more than 85 per cent accuracy even five years prior to the event in all the four industries. Study is based on the secondary data collected from 'PROWESS' of CMIE and covered the period from 1997-98 to 2001-2002. Statistical tool such as mean (\( \bar{x} \)), coefficient of variations (C.V.), t-test and multiple discriminant analysis (MDA) have been extensively used in this study. Basing on the analysis and interpretation of the financial ratios the findings of the study have been derived.

The present work is divided into eight chapters. The first chapter presents the growth and dimensions of industrial sickness in India, legal framework to deal with industrial sickness in India, nature of financial statements, analysis of financial statements and ratio analysis. Second chapter deals with the review of earlier empirical works. The third chapter discuss the research methodology adopted for the study. The chapters four to seven deals with the analysis and interpretation of the data of basic goods industry, capital goods industry, intermediate goods industry and consumer goods industry respectively. The last chapter present the summary, major findings, practical utility of the study and area for further research.