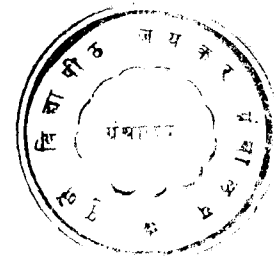


CHAPTER - IV

PERFORMANCE OF NATIONALISED BANKS IN REHABILITATION OF SICK SMALL AND MEDIUM SCALE INDUSTRIES : A BACKDROP

- 4.1 INTRODUCTION
- 4.2 APPROACH TOWARDS INDUSTRIAL REHABILITATION OF THE
RESERVE BANK OF INDIA
- 4.3 RBI GUIDELINES TOWARDS REHABILITATION OF SICK
INDUSTRIES
- 4.4 MAJOR AREAS IN THE PROCESS OF REHABILITATION
- 4.5 PERFORMANCE OF NATIONALISED BANKS IN REHABILITATION
OF SICK SMALL AND MEDIUM INDUSTRIES : A REVIEW



**PERFORMANCE OF NATIONALISED BANKS IN REHABILITATION OF SICK
SMALL AND MEDIUM SCALE INDUSTRIES : A BACKDROP**

4.1 INTRODUCTION :

The earlier chapter spelt out the various aspects of the concept of sickness in industries and the rehabilitation measures adopted by different financial institutions and banks in general. The present research aimed to study :-

1. The measures adopted by nationalised banks regarding rehabilitation of sick small and medium scale industries in Pune Region

And

2. The performance made by these banks in rehabilitation of sick small and medium industries in the Pune Region in general.

To fulfill these objectives this chapter has been divided into 'two' main parts

viz. i) Part I dealt with the guidelines issued by the RBI towards rehabilitation of sick SSI and non-SSI scale industries.

ii) Against this background performance of banks in rehabilitation of sick industries (as set out in objective no.(ii) of the research) has been studied in Part II of this chapter.

4.2 APPROACH OF THE RESERVE BANK OF INDIA TOWARDS REHABILITATION OF SICK INDUSTRIES :

As the central bank of the country the RBI is concerned equally with the growth of the industrial sector on the one hand and the health of banking sector on the other, it has therefore taken various steps to minimise the incidence of sickness.

Till the mid-1970, there was no organised approach in tackling the problem. Banks and financial institutions were extending reliefs to sick units by way of reschedulment of debts repayments, funding of interest, etc. but those were piecemeal in nature than systematic efforts. It was against this background that the Reserve Bank of India took the initiative in 1976 and emphasised a common and comprehensive approach.¹

Firstly, it was decided that only those units which have commercial viability should be supported by banks and financial institutions.

Secondly, all the agencies concerned with a sick industrial unit viz. the promoter, labour, goverment, banks and financial institutions would have to make concerted efforts in a coordinated manner and rehabilitation package should therefore provide for equitable sacrifices from all concerned.

Thirdly, the rehabilitation schemes have to eliminate as part of the package the causes which led to sickness in the first place.

And, this has to be done by making necessary provision

for technological updating, managerial revamping, labour rationalisation, strengthening of marketing setup, ensuring regular power availability etc. as part of the package.

While tackling the problem of industrial sickness the Reserve Bank of India observed that banks and financial institutions faced a number of legal and other difficulties in formulating and implementing rehabilitation measures. It therefore, set up a Committee in 1981, to examine these difficulties and suggest remedial measures including changes in law. Following the committee's recommendations a special enactment known as the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA, 1985) was passed in terms of which a quasi-judicial body, viz. the Board for Industrial and Financial Reconstruction (BIFR) was set up in 1987, for determining preventive, ameliorative, remedial and other measures which need to be taken in respect of sick companies and the quick enforcement of the measures so decided. The Board has given wide ranging powers with regard to sick companies including inter alia their revival, change or takeover of management, reconstruction, including restructuring of share capital, amalgamation with another company sale or lease of part or whole of the undertaking as also their winding up the schemes of rehabilitation as sanctioned by BIFR are binding on all concerned.²

4.3 RBI GUIDELINES TOWARDS REHABILITATION OF SICK INDUSTRIES :

In order to ensure that the right as well as uniform approach is adopted towards industrial rehabilitation, the

Reserve Bank of India has issued guidelines on practically all aspects of revival of sick units. Since the present research is mainly related to the role performed by nationalised banks in industrial rehabilitation, it is essential to first take a review of RBI guidelines and further the process of rehabilitation connected. (The Gist of details about the circulars issued by the RBI containing guidelines are given in APPENDIX NO. I)

4.3.1 Review Of RBI Guidelines

Since 1976 the RBI has been issuing guidelines from time to time which are mainly related to the areas mentioned below.

1. Creation of organisational setup and building expertise within the bank for dealing with cases of sick units.

2. Bringing change in attitude and approach of commercial bank in dealing with the problem of sickness.

3. Information system for reviewing the progress achieved by banks in dealing with cases of sick units at regular intervals.

4. Issuing general guidelines with regard to identification, monitoring, followup and rehabilitation of sick units.

5. Other steps/measures taken by the RBI

When the incidence of sickness cannot be prevented then key to successful rehabilitation lies in the early detection of the problem. Detection of sickness is very important step

in rehabilitation since very often the warning signals can go unheeded leading to further deterioration in the units working as also in the banks position. In view of this, the RBI has advised banks to setup special cells at Head Office, Regional office and at potential centres which could make use of the quarterly information system prescribed by the RBI and detect early warning signals so that corrective remedial action could be taken without loss of time.

The RBI instructed that the cells should be provided with expert staff including technical personnel for looking into technical aspects since remedial action for reviving sick units may not only be confined to financial areas but may extend to technical areas like modernisation of plant and machinery, improving/changing system of production, planning, purchase, marketing and management.

The RBI has also advised banks that the problem faced by small scale industrial units needs to be tackled with greater awareness and understanding. Bank should also evoke consultancy cells for extending assistance, guidance to the entrepreneurs. They should also endeavour to establish a separate cell to look into the complaints received from such clan of entrepreneurs.

The RBI has been suggesting that banks should change their approach from security oriented to person oriented. They should examine the viability of the scheme covering technical, economic, marketing and financial aspects.

To have an overall monitoring of industrial sickness the RBI has been calling different information. Initially banks

were required to forward information in respect of sick industrial undertaking enjoying credit limit of Rs.1 crore and above from the banking system. However after words (since 1978) considering the magnitude and incidence of sickness in SSI and medium and large industries the RBI issued guidelines to forward Quartely Progress Reports from the banks dealing with cases of sick units under both SSI and non-SSI category since 1987 the RBI has been collecting data on sick units in all categories through half yearly Reporting system which has been modified in 1989, 1991 and 1993 with certain important inclusions like industry-wise classification, codification of industries, separate forms for medium and large sick units covering all details about name of unit, reasons for sickness, names of directors/promoters, outstanding balances, rehabilitation package etc. The RBI in October 1994 started collecting information on monthly basis in case of sick SSI units from all banks.

With the withdrawal of the system of prior approval for banks extending reliefs/concessions beyond the laid down parameters in 1991, the RBI has also withdrawn the system of collecting the information from banks on reliefs and concessions given to sick units beyond RBI parameters in 1993.

In addition to the periodical information through various statements mentioned earlier, a separate statement containing statewise classification of sick SSI units, including industry-wise breakup also has been called by the

RBI for the purpose of SLIIC (State Level Inter Institutional Committees) meetings held periodically at different states under the guidance of RBI exclusively for sick ssi units.

In order to enable banks to indentify sick units the definitions of sick units relating to all types i.e. SSI sick, non SSI sick/weak has been standardized by RBI and has been conveyed to banks from time to time with necessary changes and details. (Definitions regarding sick SSI, non-SSI sick/weak etc. have been separately given in Chapter - III of the thesis)

In order to observe proper monitoring/followup of borrowal accounts, the RBI has issued elaborate guidelines which covered Quarterly Information system (QIS) in case of large borrowal accounts wherever necessary monitoring of the account and stock audit/verification of securities by outside consultants which have been made obligatory.

A uniform Health Code system has been prescribed by the RBI for all borrowal (containing Health codes) accounts of the bank to indicate the quality of each borrowal account. Following is the health code classification

Health code

- Health Code 1 - Satisfactory
- 2 - Irregular
- 3 - Sick Units (put under rehabilitation)
- 4 - Suit filed
- 5 - Decreed
- 6 - Recalled Advances

7 - Doubtful

8 - Bad

Considering the increasing quantum of Non-performing Assets with commercial banks and to have a true financial picture of banks, the RBI in 1992, introduced the new norms regarding income Recognition, Asset classification and provisioning banks have been advised to make classification of all advances in the four categories in addition to the classification under Health code system. Those four categories are namely,

1. Standard Asset
2. Sub-standard Asset
3. Doubtful Asset
4. Loss Asset.

With regard to process of rehabilitation of sick units which inter-alia includes viability study of sick unit, formulation of a rehabilitation package, its implementation thereof etc. for which the RBI has issued guidelines to banks from time to time. These major areas are explained in detail in succeeding paras as banks have to execute the rehabilitation function carefully on these guidelines and also these guidelines form as a strong basis for evaluating the performance of banks towards rehabilitation of sick units which is a prime object of the present research.

In Feb. 1995 the RBI has issued revised guidelines (which were initially issued in 1985 and 1991) for grant of reliefs, concessions by the commercial banks to potentially viable sick SSI and non-SSI sick units.

4.4 MAJOR AREAS IN THE PROCESS OF REHABILITATION :

Following are the major areas where the role of these banks is considered vital for which the RBI has issued guidelines setting certain expectations that can be considered as strong base for verification of the issues explained earlier.

1. Organisational setup

The Reserve bank of India has already issued circulars and stressing the need for building necessary organisational framework and expertise within the banks by inducting professionals in the fields of engineering and management to look after certain functions like appraisal of projects, monitoring and followup of units, consultancy to entrepreneurs, techno-economic study of sick units and for preparing rehabilitation package of units found potentially viable.

In 1977, banks were advised to setup a sick unit cell in the Head office to watch the position of sick industrial units on an ongoing basis, to find out the reasons for sickness, to ascertain whether the unit is viable, as also to determine the various steps necessary for its rehabilitation subsequently banks were advised to setup similar cells at their zonal / regional offices with the establishment of the BIFR, banks have also been asked to set up BIFR cells to coordinate efforts of the bank in dealing with the BIFR.

2. Identification of Borrowers

After nationalisation, banks are no more continuing their lending operations to persons with financial standing

who can offer adequate securities and guarantees but are providing finance to first generation entrepreneurs who have limited resources banks have, therefore to ensure that the borrower have the required expertise and experience to run the units on viable lines.

In practice it is seen that evaluation by the management is either absent or is done in a casual way. This fact has also been revealed in a study conducted by the Reserve Bank of India on cause-wise analysis of sickness in industrial units. It was found that out of 378 units 197 units (i.e. 52 per cent) became sick on account of management failure.

3. Techno-Economic Appraisal

The techno-economic appraisal in banks is generally confined to financial aspects based on the past data appearing in the financial statements. The other aspects like technical, marketing, management, personnel and internal environment etc. do not get due weightage. A banker takes a favourable decision in case the past balance sheets and profit/loss accounts present a satisfactory picture and future profitability projections, as submitted by the borrower show enough surplus. It is seen that the some units do not give a correct picture in the financial statements and make adjustments in revenue cost and closing stocks to adjust their profits. Complete reliance on financial statement and data submitted by the borrower may not be correct.

4. Assessing Financial Requirements

For assessing working capital requirement of the large borrowal units banks apply lending norms and methods as

suggested by the Tandon Committee. For small units the assessment is made on the basis of simple and conventional methods. For assessing the requirements banks call for data relating to past achievements and future projections. It is a general experience that the projections given by borrowers are over ambitious and do not come true in a majority of the cases. By depicting an over-optimistic picture, the industrial units are able to get limits higher than their actual requirement. This leads to over-financing which may result in increasing interest burden and uneconomical working.

5. Delegation of Loan Sanctioning Powers

Some banks have not delegated adequate loaning powers while in case of others, the powers delegated, although adequate, are not being rightly used. In some banks, the loaning powers have been linked with the nature of facilities and not with the complete project financing, for instance a project may require a term loan of Rs.2 lacs and cash credit (Hypothecation) limit of Rs.4 lacs which may fall under the sanctioning powers of two offices, say for term loan with branch and for cash credit (Hypothecation) limit under the Regional office. Such projects may get delayed since these two offices may not agree with the assesment of other. It is further seen that some banks have not adopted a uniform system and or practice for delegation of powers regarding industrial sick units proposed to be put under rehabilitation generally the proposals for rehabilitation in case of ssi units are being considered and approved by the field functionaries within their sanctioning powers, if these

concessions are within the parameters given by RBI. In case of sick medium and large scale units which are referred to BIFR and where reliefs and concessions are within the RBI parameters are being considered by a committee of executives at the central office and or separately within their sanctioning power in case of sick medium and large scale units referred to BIFR and where reliefs and concessions envisaged under the scheme are over and above RBI parameters are generally considered by the committee and/or board. This leads to delay in clearance of proposals, formulating and implementation of rehabilitation packages in case of sick medium and large units. If the board may delegate its powers to chairman and committee of executives it would be useful for expeditious formulation and implementation of rehabilitation package and also would ensure to obviate rejection or re-examination of the reliefs/concessions already agreed to at senior executives level in the joint meetings.

6. Monitoring And Follow-up

The banks have to be very alert and cautious in respect of all borrowers especially sick units which have put under rehabilitation programmes. The RBI has issued guidelines/instructions to banks regarding monitoring of large borrowal accounts under which they have been asked to initiate a system of appointing credit monitors/officers within the banks. In case of large and medium sick borrowal accounts banks are required to take utmost care and

invariably keep a constant vigil on the working and operations of those units since a single irregularity may turn into a serious blow which would ultimately affect on profitability of bank. In the case of large sick borrowal accounts, quarterly operating statements giving details of current assets, current liabilities, profitability and funds flow position are obligatory on borrowers and are to be examined. These statements are obtained by banks mostly as a ritual exercise which results into a adverse situation as there are no adequate guidelines for the stand of such statements.

Similarly, in the case of sick small industries there is no obligation to submit the quarterly statements.

7. Preparation of Rehabilitation Package

Many a time rehabilitation of sick units gets delayed because neither the person at the branch level nor the borrower are clear as to how a rehabilitation programme is to be prepared. At times branches are also reluctant in reporting and recommending rehabilitation of sick units due to the fact that further risk is involved because of this many accounts which are showing the signal of incipient sickness are not attended properly which ultimately may lead in either delay in fixing the rehabilitation package or may turn the unit to the non viable stage.

4.5 PERFORMANCE OF NATIONALISED BANKS (IN PUNE) IN REHABILITATION OF SICK SSI AND MEDIUM SCALE INDUSTRIES : A REVIEW :

As per the guidelines issued by the RBI which are

described earlier in this chapter, nationalised banks have taken steps to prevent sickness and also adopted necessary measures for the rehabilitation of sick units. in spite of these, the number of sick units particularly in the SSI sector is increasing for which these banks are criticised a lot. Actually nationalised banks have contributed a lot in the industrial development of the country by giving timely finance and also other non-financial services like technical guidance, training to SSI entrepreneurs, opening special cells/branches for the redressal of their grievancies etc. Even during the present decade also through various government schemes these banks have been extending helping hand to new entrepreneurs who are "Sunrise Industries". However, on the other hand, these banks are blamed for blocking of huge funds in sick industries. As such they have been caught in a paradoxical state of affairs.

In order to probe further to get acquainted with the present problems that encountered by these banks the researcher conducted "unstructured interviews" with the officials of nationalised banks in Pune region, the findings of which are stated below.

4.5.1 Problems/Difficulties faced by nationalised banks in performing the rehabilitation function

While making efforts to rehabilitate sick industrial units banks have faced certain problems and difficulties which are broadly classified as internal and external.

A) Internal Problems/Difficulties

1. Most of the banks in the Pune region were having

their zonal and central office either out of the Pune or even out of the state. This posed a problem before these banks in receiving timely decisions about declaration of sickness of a unit its viability and deciding about its nursing etc.

2. Due to insufficient or limited powers delegated to field offices in few banks, it was adversely affected the process of timely rehabilitation of sick industries.

3. Although the RBI has many a times issued instructions about proper monitoring and followup, it was found that there were no proper efforts in follow up of sick or irregular units.

4. Due to the less knowledge about reliefs, concessions in respect of sick units to the field people in few banks more time was wasted in preparation and implementation of package.

5. In some branches of banks in the region due to shortage of staff there were delays in making review/renewal of proposals, documentation etc.

6. Due to routine work load the branch managers were unable to pay visits to sick units because of which they faced difficulties to get upto date record about the stock position, production, sales, etc.

7. Due to the distances between branches and the field office, as well as central office of the banks, delay and communication gaps were resulted in reporting of sick units, changes in viability positions, timely development in the all unit etc.

B) External Problems/Difficulties

1. The very common problem which was faced by almost all the banks was delay in or non-submission of the necessary data statements by sick unit owners.

2. Reluctance on the part of sick units over the timely compliance of certain terms, conditions many a times resulted into delay in implementation of the rehabilitation packages.

3. In case of consortium/joint finances to sick units it was experienced by many banks that many a times leader banks and a few banks of consortium were ready to disburse their share of working capital however there was reluctance on the part of few other member banks in taking up their respective share. At times the judgement of the lead bank was questioned and issues regarding viability of the unit etc. were raised after the package was accepted by all member banks.

It was reported by many banks that in some cases although sharing pattern was agreed to at consortium meetings some banks were backed out of decisions already taken at such meeting.

4. Delay in taking decision and communicating the same upto the branch level was the common problem in case of BIFR referred sick units.

5. Due to political pressures few borrowers compelled the branches/regional office of the bank to waive certain conditions of the rehabilitation packages

6. Workers of the sick units were some times brought pressures through union leaders for grant of temporary loans for their bonus, overtime payment etc. This resulted in

delay in implementation of conditions of the package.

7. Many banks expressed their inability to cede their first charge on fixed assets of a sick unit as State Government/Department was not ready to realise their charge.

8. Regarding rehabilitation of sick units, the delay observed in putting the viable units under nursing was attributed to the following reasons:

a) the borrowers expected unreasonable concessions;

b) the borrowers did not take corrective steps for improvement in product mix, production operations, disposal of identified assets, technological changes as expected in the package;

c) the borrowers contended that sickness of the unit was due to inadequate working capital. In fact sickness was due to poor marketing/poor management, financial indisciplines which resulted into shortage of funds;

d) where rehabilitation package was evolved with SFC/Govt. agencies, the implementation was delayed because of the time taken for compliance of stipulations of SFC/agencies, whereas implementation was quick when bank alone was involved.

9. It was reported by DIC, Pune that at the end of December 1994 there were more than 12,000 SSI Units in the region. Out of which nearly 6000 were sick.

In all, in respect of only 'three' nationalised banks the researcher could obtain the data regarding sick SSI units. (Table No. 4.1 to 4.6 on next pages) No details about medium scale sick units were made available to the researcher.

TABLE NO. 4.1

Data In Respect of Nationalised Banks In Pune And Of Their SSI Sick Units.

(Rs. in Crores)

Bank	Number Of Sick Units	Amount Blocked
A	4	0.95
B	15	1.03
C	18	2.13
	37	4.11

TABLE NO. 4.2

Classification of Sick SSI Units According To Type of Activity.

Sr. No.	Type of Activity	Number of Sick Units.
1.	Engineering	10
2.	Chemicals	3
3.	Electricals	3
4.	Plastic	2
5.	Brick Manufacturing	3
6.	Packaging	1
7.	Miscellaneous	15
		37

TABLE NO. 4.3

Classification of Sick SSI Units According To Status of Unit.

Sr. No.	Type	Number of Sick Units
1.	Proprietary	28
2.	Partnership	9
3.	Private Limited Co.	--
		37

TABLE NO. 4.4

Classification of Sick SSI Units According To Reason for Sickness.

Sr. No.	Type of Reasons	Number of Sick Units
1.	Mismanagement	21
2.	Labour Problem	9
3.	Marketing Problem	3
4.	Poor Quality Of Product	2
5.	Other Reasons (like Non-qualified or less experienced Owners/Staff, Change in Government policy etc.)	2
		37

TABLE NO. 4.5

**Classification of Sick SSI Units According to Viability
As at Dec. 1993**

(Rs. in crores)

Sr.No.	Particulars	Number of Sick Units	Amount Blocked
1.	Put Under Nursing	13	1.80
2.	Potentially Viable But Not Put Under Nursing	8	0.97
3.	Potentially Non-Viable Units	10	0.97
4.	Bank Not Decided Viability of Sick Units	6	0.37
		37	4.11

TABLE NO. 4.6

**Number of Sick Units Rehabilitated During The Period
1980-1993**

(Rs. in Crores)

Bank	Number of Units	Amount Released
A	1	0.06
B	NIL	NIL
C	2	0.10
	3	0.70

Following are the important facts emerged from those tables.

1. Out of 37 Sick Units the percentage of sickness was highest in engineering sector.

2. Out of the 37 units, 28 units were from proprietary and 9 units were having partnership status.

3. Mismanagement was the prime reason for sickness in 21 units, followed by labour problem, marketing problem and other problems like non-availability of skilled or experienced staff etc.

4. Out of the total 37 units, only 13 units involving Rs.1.80 Crores were put under rehabilitation programme.

5. During 1980-1993 only 3 sick SSI units could get rehabilitated and thereby released Rs. 0.70 Crores.

On this background certain issues emerge which are very vital, especially, considering the increasing trend of industrial sickness and also the huge funds of banks blocked up in these units.

Those issues are :

1. Whether guidelines prescribed by the RBI are elaborate on the problem solving ?

2. If yes whether these banks strictly adhere to these guidelines in their function towards rehabilitation of sick units?

3. Are these banks follow a right approach towards problem solving ?

4. Whether their working procedures, policy framework, institutional mechanism, systems/procedures are as per the

expectations of the RBI ?

5. Do they find any difficulties/problems in performing their role ?

To answer these questions it was thought pertinent to have a detailed analytical study on the basis of survey of a selected bank which is discussed in next chapter i.e. Chapter-V.

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