Chapter 5

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5.01 INTRODUCTION

The present chapter makes an attempt to highlight the main issues those have emerged from the case studies of selected units as detailed in the preceding chapter. It is, therefore, essentially an evaluation of the case studies in a nutshell. Also it attempts to make a summary of issues that have emerged through the process of the research work apart from the case study of selected units.

5.02 ISSUES ARISING FROM THE CASE STUDIES

The main issues underscored though the process of the case studies are furnished below:

1. Schemes of the BIFR generally allow modernisation/expansion programme for revival of the sick units. Financing patterns proposed to finance such programme in respect of selected units reveal lack of uniformity. However, sacrificing patterns i.e., sacrifices to be made by different agencies involved with the affairs of a sick unit (e.g., term lending institution, banks and the Government) reveal a better picture (Chapter 4, Section 4.04.1.3).

2. The BIFR as a policy instrument of the Central Government was successful in deciding the cases of sick units. However, the BIFR process originating from reporting of a case of sick unit and ending with sanction of the rehabilitation scheme was quite time consuming in respect of selected units (Chapter 4, Section 4.04.2.2.1).

3. Such time consuming quasi-judicial process with the BIFR, generally, makes the parameters used for preparation of revival
scheme, particularly time limits stipulated for implementing the scheme and consequent obtaining of the favourable financial results quite non-feasible (Chapter 4, Section 4.04.2.2.1).

4. Out of 4 selected units, one unit, viz., Kelvin Jute Limited, could not implement that scheme for various cropping problems, viz., change of management, non-release of funds by banks and financial institutions, non-availability of power, non-finalisation of updated scheme by the operating agency, etc. Thus, detail case study could be performed for 3 units only (Chapter 4, Section 4.04.2.2.3). It signifies that sanction of a scheme by the BIFR alone cannot guarantee revival of a unit.

5. Selected units had shown lesser degree of compliance regarding adherence to time limit of capital expenditure for expansion, modernisation, etc. It was observed that mainly due to delay in sanctioning the rehabilitation scheme by the BIFR there was delay in implementation of capital expenditure plan (Chapter 4, Section 4.04.2.3).

6. Regarding time-target of infusion of promoter's contribution and turnaround, all the selected units except one had shown remarkable performance. Out of 3 selected units, 2 units had actually been revived well within the timeframe and in respect of one unit there was delay but that unit could also improve its performance during the post-sanction period (Chapter 4, Section 4.04.2.3).

7. On an overall basis, selected units had shown slightly more than moderate performance for achieving the time limits set out in their respective schemes. Also, it was observed that variability of performance among the units was not significant (Chapter 4, Section 4.04.2.3).

8. Funds infused in accordance with the requirements stipulated under the scheme were generally used for specified purposes and diversion of funds was not a common phenomenon among the
selected units. Even certain units used funds from internal accruals/sister concerns for speedy implementation of their respective scheme (Chapter 4, Section 4.04.3.3).

9. It was observed that Dumraon Textile Limited (DTL), one of the selected units, was having better cash flow position during the post-sanction period. In the pre-sanction period it had negative aggregate cash flow due to repayment of loans/short term bank borrowings. However, there was considerable improvement in operating cash flow performance in the post-sanction period (Chapter 4, Table 4.18).

10. The trend of EBIDT of DTL revealed that position of the post-sanction period was much better than that of the pre-sanction period. Increase in profit resulted in consequent decrease in accumulated losses and improvement of networth position during the post-sanction period. The company was ultimately declared 'no longer sick' by the BIFR for its improved financial position. But there was a marginal increase in capacity utilisation after implementation of the BIFR Scheme (Chapter 4, Section 4.04.4.3.1 and Table 4.19). Thus, low capacity utilisation was not an important cause of sickness of this company.

11. Ipitata Sponge Iron Limited (ISIL) showed remarkable financial performance during post-sanction period. Average cash flow from operation improved substantially from Rs. (-)10.29 million to Rs. 62.40 million between pre-sanction and the post-sanction period. Although, trend of earnings (EBIDT) was fluctuating there was definite improvement in performance as measured by EBIDT. Trends of networth and accumulated losses were in tandem with that of EBIDT. The capacity utilisation showed an increasing trend after the start of revival process (Chapter 4, Table 4.20 & 4.21).

12. Shriram Bearing Limited (SBL) had positive operating cash flow during the entire post-sanction period except one accounting cycle. Also it was observed that yearly operating cash flows of
SBL were in divergence with yearly gross profit. Such divergence indicates that financial statement prepared on accrual basis does not indicate amount and timing of cash flow (Chapter 4, Table 4.21).

13. Regarding EBIDT, there was marginal improvement in performance of SBL in the post-sanction period when favourable impact of product mix rationalisation programme started before sanction of the scheme was excluded. Also, the company could not totally wipe out the accumulated losses but trend was improving. The same was the position regarding networth. There was nominal negative networth at the end of the post-sanction period as considered for this study (Chapter 4, Table 4.23).

14. Statistical testing of performance (Fishers’ t test) in respect of operating cash flow (OCF) revealed that improvement in respect of this parameter was not very impressive. Out of three sample companies improvement in OCF was significant in respect of two companies at 5% level of significance (Chapter 4, Table 4.27).

15. At 5% level of significance improvement in EBIDT and capacity utilisation during the post-sanction period was significant for all the three companies (Chapter IV, Table 4.27). It signified that through the implementation of the BIFR sponsored schemes all the selected units achieved better performance. But there were variations of performance among these units.

16. Out of the three selected units, two companies viz., ISIL and DTL, were actually declared 'no longer sick' by the BIFR. In respect of one company, viz., SBL there was marked improvements in all the performance parameters but the company was not revived as per the BIFR norms as there was nominal negative networth (Chapter 4, Section 4.04.4.5).

17. Implementation of a scheme in a full fledged fashion may bring improvement in operating and financial performance as evident
from the performance of selected sick units (Chapter 4, Section 4.04.4.5).

18. Intention of the promoters or the management group is very vital for revival of sick unit. Promoters must be willing to revive the company. Moreover, any change in management during revival process may affect the prospect of revival of the sick unit concerned. Such a conclusion emerged from the fact that there was a change in management in respect of only one company, viz., Kelvin Jute Limited, which could not implement its scheme. On the other hand, two turnaround companies, viz., ISIL and SBL, used their own internal resources, or funds from sister concerns, to implement their respective schemes (Chapter 4, Section 4.04.4.5).

5.03 OTHER ISSUES EMERGING FROM THE STUDY

The main findings that have emerged during the course of research work (apart from the case study of selected units) are furnished below:

1. While dealing with concept of sickness, theoretical definitions given by the various authors, institutional definitions for specific purposes and concept of sickness as explained in the SICA, 1985 were discussed. It was brought out that there was a bias towards defining sickness in terms of financial indicators. While such an approach might be motivated by a desire to ensure that agencies involved in handling sick units operates within a uniform framework, it seemed deficient because sickness cannot always be measured so neatly by quantitative indicators (Chapter 2, Section 2.02).

2. Regarding causes of sickness, it was highlighted that the management deficiency was termed as main cause of corporate sickness in many studies. It was also noted that the findings of the RBI study on causes of sickness coincided with a study made in the USA. In both the studies, it was found that internally
generated management problem was responsible for bringing decline in 52% of the cases (Chapter 2, Table 2.02 & 2.03).

3. During the course of the study, it was noted that both internal causes and external causes were held to be responsible for bringing sickness. It was observed that invisible internal causes and visible external causes put together take the unit to death knell and invisible causes were also root causes which deserved more management attention in containing sickness (Chapter 2, Section 2.03).

4. The study brings out that there were many earlier studies where symptoms of sickness were noted. Such symptoms were sometimes divided between early indicators for incipient sickness and conclusive indicators for firmly established sickness (Chapter 2, Section 2.04).

5. The discussion of symptoms was concluded with the remark that symptoms of incipient sickness or firmly established sickness were always there. The trouble was that only few people recognise them in their proper perspective (Chapter 2, Section 2.04).

6. Regarding magnitude of sickness it was noted that so far as blocking of bank fund was concerned non-SSI large/medium units enjoyed larger share than that of SSI units. Moreover the growth of outstanding bank credit to non-SSI sick units was very alarming. During the span of 6 years from 1990 to 1996, the yearly growth rates of outstanding bank credit to non-SSI sick units were always positive and average rate of growth during that period was 11.71% (Chapter 2, Section 2.06).

7. It was also noted that sickness in five industrial sectors viz., engineering, textile, chemical, iron and steel and metal accounts for the major share of bank credit locked up in such units. These five industrial group accounted for the 55.32% of the non-SSI Sick
units and 62.24\% of total bank credit outstanding as at end of March 1996 (Chapter 2, Table 2.08).

8. On the basis of analysis of steps taken by the Government of India regarding revival of sick units, it was observed that, Government of India had taken certain measures from time to time either through changes in legal requirements of takeover of sick units or through institutional arrangements of providing finance at a concessional rate. However, the major policy initiative of the Government of India was to legislate Sick Industrial Companies (Special Provisions) Act, 1985 (SICA, 1985). The Act aims to remove deficiencies of exiting institutional arrangement and procedures for revival and rehabilitation of potentially viable sick industrial companies (Chapter 2, Section 2.07).

10. Before the enactment of the SICA, 1985 there were plethora of Acts to deal with the problem of industrial sickness. A multiplicity of laws and agencies made the adoption of a coordinated approach for dealing with sick industrial companies difficult (Chapter 3, Section 3.02). So, enactment of the SICA, 1985 was a step in the right direction.

11. It was observed that the revival of sick corporate enterprises get importance to the degree it deserved through the SICA, 1985. As per the scheme of the SICA, 1985, a quasi-judicial body of experts known as the Board for Industrial & Financial Reconstruction (BIFR) was constituted in 1987. Establishment of the BIFR was considered to be one of the significant policy initiatives of the Government (Chapter 3, Section 3.03).

12. During the period 1987 to 1993, there was a steady decline over years in the number of cases registered with the BIFR (Chapter 3, Table 3.01). The process of the BIFR originating from reporting of a case of sick unit and ending with sanctioning of rehabilitation scheme was time consuming. In 1987, as high as 731 days in average was taken to dispose the case of a sick unit.
However, there was drastic reduction in the average disposal time in 1992 and 1993. Average disposal time in 1993 was only 94 days (Chapter 3, Table 3.01).

13. Out of net disposal of 960 cases of the sick units registered with the BIFR upto 31st October, 1993, in 204 cases (i.e., 21.25%) revival was attempted through the BIFR sanctioned scheme (Chapter 3, Table 3.03). It was also observed that the BIFR used the threat of winding up in 35 cases out of 204 cases to finalise revival package which indicated that apart from the delay made by the BIFR, various other factors including desire of some promoters to continue the sickness of the company concerned were responsible for delay in the BIFR process (Chapter 3, Section 3.05.2).

14. Statewise analysis of the cases disposed off by the BIFR revealed that although the States in the Eastern Region registered 236 cases, only 37 schemes (i.e., 16%) were sanctioned under section 18(4) upto October, 1993. It indicated a poor state of affairs as compared to all India average of 22% sanction of rehabilitation scheme (Chapter 3, Table 3.04).

15. The study brought out that the performance of the BIFR in bringing turnaround was not totally dismal. As on 31st October 1993, out of 334 units for which rehabilitation schemes were sanctioned, 139 units were turned around or on the threshold of recovery i.e., a success ratio of 40%. Such success ratio was computed on the assumption that an allowance of 2 years should be given to judge the outcome of revival measures. Thus, the BIFR has been playing a significant role in nursing many sick units back to normal health. It has tremendous economic and social significance (Chapter 3, Section 3.05.4).