Chapter 1

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1.01 BACKGROUND

Sickness in industries is not a new phenomenon. However underdeveloped and developing countries generally have been facing the problem with greater intensity. The magnitude of sickness is also constantly increasing in the Indian economy. As per Report on Currency & Finance 1996-97, the position of sickness at the end of March, 1996 stands as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number of Unit</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>End of March'95</td>
<td>End of March'96</td>
</tr>
<tr>
<td></td>
<td>End of March'95</td>
<td>End of March'96</td>
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<tr>
<td></td>
<td>End of March'95</td>
<td>End of March'96</td>
</tr>
<tr>
<td>1. Small Scale Industrial (SSI) Sick Units</td>
<td>268815</td>
<td>262376</td>
</tr>
<tr>
<td></td>
<td>35470</td>
<td>37220</td>
</tr>
<tr>
<td>2. Non-SSI Sick Units</td>
<td>1915</td>
<td>1956</td>
</tr>
<tr>
<td></td>
<td>87396</td>
<td>88232</td>
</tr>
<tr>
<td>3. Non-SSI Weak Units</td>
<td>476</td>
<td>418</td>
</tr>
<tr>
<td></td>
<td>14520</td>
<td>12030</td>
</tr>
<tr>
<td>TOTAL</td>
<td>271206</td>
<td>264750</td>
</tr>
<tr>
<td></td>
<td>137386</td>
<td>137482</td>
</tr>
</tbody>
</table>


The growing industrial sickness has always been a matter of great concern to the policy-makers and the banks and financial institutions in view of mammoth funds blocked in sick units (particularly non-SSI large units) and other socio-economic consequences. Banks and financial institutions become affected directly as they have to bear the brunt of sickness for their financial involvements in such units.
The Government of India responded to this phenomenon by enacting a separate legislation for non-SSI units, namely, Sick Industrial Companies (Special Provisions) Act, 1985 (SICA, 1985). Consequently, a quasi-judicial body of experts known as the Board for Industrial and Financial Reconstruction (BIFR) was constituted in the year 1987. Through this Act it is intended to secure timely detection of 'sick' and 'potentially sick' companies so that speedy and appropriate preventive, ameliorative, remedial and other actions may be undertaken by a body of experts (i.e., the BIFR).

As per scheme of the SICA, 1985, any sick industrial company as defined under section 3(1)(o) of the Act, (i.e., the company for which sickness is firmly established) has to report to the BIFR. After such reference under section 15 of the Act, if the Board opines that the company will not be able to revive itself, it will ask the 'operating agency'\(^*\) to prepare a draft scheme providing for one or more of the followings:

a) reconstruction, revival or rehabilitation of the sick industrial company;

b) change of management including takeover;

c) amalgamation with a "transferee company"; and

d) sale of lease of whole or part of the assets of the company concerned.

The draft scheme is finalised after making suitable modifications on the basis of suggestions, objections & views of the sick industrial company, its shareholders, creditors and employees, 'operating agency' and 'transferee company' (if any), as considered appropriate by the Board.

\(^*\) The term 'operating agency' as defined in the SICA, 1985 means any financial institution, State level institution, scheduled bank or any other person specified by the BIFR by a general or special order [Section 3(1)(i)]. The major functions of such agencies inter alia include preparation of the schemes and recommendation to the BIFR the steps to be taken to implement the scheme.
Finally, when the scheme is approved by the Board it is called "sanctioned scheme". A successful implementation of the "sanctioned scheme" is likely to lead to revival of the health of the sick units provided the schemes were drawn up in keeping with the teething problems. In this study, an attempt is made to analyse as to how far this avowed objective of revival takes place and, if not, what are the reasons for failure.

Revival of sick units has tremendous economic significance and any study that highlights this aspect should point out whether scarce resources of the country are misdirected or are utilised properly for the better health of the economy.

1.02. LITERATURE SURVEY

Studies regarding revival of sick industries in India have so far not made any significant headway. Das & Sahu\textsuperscript{1} have conducted a study of the role of Orissa State Financial Corporation in rehabilitation of sick units. Also Biswasroy & Sahu\textsuperscript{2} have made a study to assess overall contribution of the erstwhile Industrial Reconstruction Corporation of India (IRCI) in reorganising sick industries during the period 1971 to 1986. In that study, an attempt was also made to review overall performance of some of the IRCI assisted units during the revival process. Although many studies were made on prediction of sickness (L.C. Gupta\textsuperscript{3}, Kaveri\textsuperscript{4} etc.), systematic studies on revival of sickness of corporate enterprises in respect of which the BIFR had sanctioned schemes are few and far between.

So the present work aims at conducting an indepth study on the issue of revival of sick units through the BIFR schemes and would be a maiden effort in this direction. Apart from critical examination of this issue for the study period (as defined later), it has also attempted to suggest improvement in implementation of revival schemes based on the results of our case studies.
OBJECTIVES OF THE STUDY

As briefly discussed earlier, through the BIFR sanctioned scheme a large amount of funds are invested in sick companies for their revival. As a part of revival package, these funds are released at a concessional rate of interest and with easy terms of payment. Naturally, one may be inquisitive about the fate of such schemes and the realisability of the funds provided by banks and financial institutions. The question arises, whether the units for which schemes are sanctioned and implemented have actually been revived or in the process of revival. This is an important socio-economic issue and has to be probed. It needs to be emphasised that non-revival of sick units despite the involvement of huge fund would have a disastrous effect on banks & financial institutions. Also, there arises the question of opportunity cost of funds provided. These institutions may themselves become sick in the event of mismanagement of funds in loanee units.

In this study, an attempt is made to analyse as to how far this avowed objective of revival takes place and if not, what are the reasons for failure. The present study assumes its importance as it tries to evaluate the total operating process of the BIFR regarding revival of sick units. Revival of sick units has tremendous economic significance for a country like India where prioritisation regarding utilisation of scare resources is considered to be one of the most important issues for management of the company. The present study integrate three aspects, the BIFR process regarding rehabilitation of sick units, the process of revival/non-revival of units selected for this study and the role of certain financial parameters in locating the turnaround of selected sick units. More specifically, the study has the following objectives:

1. To examine the concept, causes and symptoms of industrial sickness in India.

2. To analyse the magnitude of sickness in large scale industry and to make an analysis of measures taken for revival through policy
initiatives of the Central Government in view of growing menace of industrial sickness.

3. To study the role of the credit institutions and Banks to rehabilitate sick companies.

4. To analyse the process of the BIFR regarding revival of the sick companies and its performance in handling cases referred to it.

5. To study the schemes sanctioned by the BIFR for the selected units to examine the following issue:

Do the rehabilitation schemes sanctioned by the BIFR in respect of selected units reveal a define financing pattern showing sacrifices to be made by 'operating agency', consortium Banks & the Government?

6. To make an appraisal of performance of the sample units before and after the implementation of the sanctioned scheme to track the state of revival of such units. In particular, such performance study aims at examining the following issues:

- Whether the time frame of implementation proposed in the schemes has been generally adhered to. If not, what are the reasons attributable to it?
- Whether there are significant improvement in operating performance during the 'post sanction' period over the 'pre-sanction' in the case of sample units?
- Whether funds are utilised for the purpose for which they have been sanctioned and released.

7. To suggest changes in the existing legal and procedural framework considering the result of the case studies.
RESEARCH METHODOLOGY

1.04 Sample Selection

For the purpose of case studies we have selected four units. The sample selection procedure is described in detail in Chapter 4.

1.04.2 Sources of Data

The study is based on both primary data and secondary data.

Primary data regarding the sample companies were collected from the following sources:

1. Records of the BIFR including information furnished by the sick companies, Banks and Financial Institutions, minutes of the proceedings of the BIFR hearing on cases relating to sick units and the correspondence between the BIFR and other Government agencies as regard sample units.

2. Sanctioned schemes of the BIFR in respect of sample companies.


4. Records available with the operating agencies or other leading institutions.

5. Records available with Registrar of Companies.

6. Personal interviews with the officials of the BIFR.

Publication of the Reserve Bank of India, Financial Institutions, Banks, Government/semi-Government Agencies, Official directories of the Stock Exchanges and research output of individual researchers connected with different segments of the study constituted secondary source of our data.
1.04.3 Techniques of Study

Basically the study is explorative and empirical. Depending upon the necessity, various techniques of the study like descriptive, observation study, case study and empirical study have been followed in moulding the data and interpreting the results.

1.04.4 Tools for Analysis

In order to study the performance of selected units certain hypotheses have been formulated. Such hypothesis are tested by applying statistical and accounting tools in appropriate cases. Particularly cash flow analysis, trend analysis of performance indicators like profitability, capacity utilisation, investment in modernisation scheme etc. have been used. The financial performance is further analysed by applying appropriate statistical tools.

1.05 DESIGN OF THE WORK

For attainment of the objectives as stated earlier, the study is divided into a number of further chapters. There may not be any consensus on designing the break-up of the work. However, one has to do it in a rational way keeping in view the overall objectives of the study. We divide the work into the following further chapters:

Chapter 2 — Industrial Sickness in India

a) Concept of Sickness – Causes of Sickness – Symptoms of Sickness (Part I).

b) Magnitude of Sickness – Historical Perspective of the Measures Undertaken for Revival – Role of the Credit Institutions and Banks (Part II).
Chapter 3 — Revival of Industrial Sickness in India


Chapter 4 — Case Studies


Chapter 5 — Issues Arising Out of the Case Studies

Introduction – Issues Arising from the Case Studies – Other Issues Emerging from the Study.

Chapter 6 — Suggestions and Recommendations

References


