Out of the 54 units surveyed for the present study, 4 were sick units, whose cases are dealt with separately in this Chapter since each one has different reasons and circumstances which led to the sickness.

It is generally accepted that the growth of small scale units contributes to the national income of the Country, generates employment and that there is distribution of income and wealth. The backward and rural areas are also developed by setting up the Small Scale Industrial units in such areas.

But from the recent statistics we find that in our country there are around 24,656 sick units in all, out of which there are 23,255 Small Scale Industrial units and only 1,401 large and medium scale units. This means that Small Scale Industrial units constitute 94.3% of the total sick units in our country. The percentage of sick units in case of large and medium industries to total sick units comes to 5.7% only.

The total amount involved in such sick units which comprises of Banks and Financial Institutions’ stake is to the tune of around Rs.1,500 crores.1

It has become a burning issue now and needs serious thinking as to why the Small Scale Industrial units should fall sick. The most alarming feature is that every year there is an increasing number of sick units in our country. The two table Nos. 1 and 2 give the position of sick units. Table No. 1 gives the number of sick industrial units and credit outstanding i.e. Statewise position and Table 2 gives the number of sick industrial units and credit outstanding i.e. Industrywise position.

Various incentives are offered by the Central and State Government, Banks and other financial institutions, still these units go sick.

**DEFINING A SICK UNIT:**

The first attempt at defining a sick unit was made in 1972, when the Committee on Rationalisation of Returns in respect of small scale industrial advances classified unsatisfactory units as irregular, sick and sticky. Sick units in this context were defined as those whose accounts are chronologically irregular and required a study to evolve a nursing programme and a close follow-up.

The State Bank of India's study team on Small Scale industrial advances (1975) defined a sick unit as "a unit which fails to generate internal surplus on a continuing basis and depends for its survival on frequent infusion of external funds".
The Reserve Bank of India defined a sick unit as one which is incurring cash losses.

In the two definitions given by State Bank of India and Reserve Bank of India, the main characteristic of a sick unit is the "cash losses" or the "failure to generate an internal surplus".\(^2\)

There are various causes which are responsible for causing sickness among the small scale units. The general causes which are common are given below:

**PRODUCTION**

The major problem in production was that the Small Scale Industrial units were owned by persons who were not technically qualified and depended much on the employees. A given economy's production per person depends not only on its economic institutions but also on a large number of historical, political, cultural, geographic, natural and demographic circumstances as well.\(^3\) When these employees left the job, the Small Scale Industrial units faced

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2 Advances to Small Industries and Small Borrowers (A Practical Guide) - By Gopal Swaroop (1979) - Sultan Chand & Sons, New Delhi - pg-205.

trouble and subsequently led to sickness. Another major reason was the lack of planning for production. There is absolutely no planning whatsoever in the Small Scale Industrial units by which the units could fix their production targets or have control over production. Another cause is the shortage of raw materials which cannot be obtained in time by which the orders are lost. The next problem was that of power shortage. Intermittent power cut disrupted production and heavy losses were incurred as the products became waste.

Another point was noted about the cost of production. Since these units did not have a costing system, there was no possibility for them to know and have control over the wastage of raw materials. The materials used were of substandard quality which led to high rate of rejection.

HEAVY INVESTMENTS :

Another reason which caused sickness among the Small Scale Industrial units is the heavy investment in business. That is to say the Small Scale Industrial units borrow too much fund in excess of their requirements by drawing a rosy picture in the beginning and after some time sink due to heavy interest burden. Again, when the Banks come to know that a unit is not doing well, they stop the further facilities to such units. This results in borrowing from outside i.e. the private money lenders who charge exorbitant rates (19% - 25%) of interest, thus making the units sink more.
FINANCIAL MANAGEMENT:

The Small Scale Industrial units do not have financial discipline. The sources of funds cannot be tapped by them properly. Also, they extend more credit periods to their customers, misutilize the funds borrowed for personal uses such as purchasing assets like cars or building houses, diversify their funds elsewhere e.g. the sister concern and ploughing back of profits is seldom made.

MARKETING PROBLEMS:

The basic problem is that the Small Scale Industrial units cannot have markets outside the area where they are situated and are dependent on the local market only. The reason for this is that the prices of their products are not competitive due to high cost of production, low quality of products manufactured, heavy competition from outside the State or from other units in the same area.

THE 4 CASE STUDIES:

The units whose cases were studied are as below, with abbreviations used against each for discussion in this chapter.
Now it is proposed to take up each unit separately and study their cases.

CASE I : KSE

KSE a light engineering unit was established in 1964 to manufacture moulds, dies and spare parts. It was a sole proprietorship concern, the owner having technical experience only. The unit was in the heart of Pune City. KSE was granted financial assistance by a Nationalised Bank in 1965 to the tune of Rs.10,000/- only for purchase of Plant and Machinery. The unit had current account with another Nationalised Bank. The unit had also borrowed Rs. 10,000/- from the Friends and Relatives in 1964 for starting the business and for the working capital purposes.
The average sales were to the extent of Rs.20,000/- to Rs.30,000/- per year and profits (average) for each year came to Rs.10,000/-. (based on last 3 years average)

The unit had 4 skilled workers who were paid Rs. 400/- p.m. i.e. Rs.19,200/- (Rs.400 X 12 X 4)

The products were sold on 3-6 months credit and credit allowed by the creditors for purchase of raw materials was only 1 month.

The unit stated that it had no competitors.

From the above it is apparent that the unit was running at a heavy loss as the sales amount realised could not cover even the operating expenses of the unit. The labourers could not be paid in time every month.

RESULT :-

The result was that the workers left the job, who were trained specially for the specific jobs, for better prospects outside, which resulted into the closure of the unit. The unit was completely closed in 1978.
REASONS FOR SICKNESS ANALYSED :-

The first question put to the unit while making the survey was as to why the unit did not avail bank's finance for the working capital requirements and borrowed from the Friends and Relatives (Interest paid @ 18\% p.a. on average). The answer given by the owner was that he did not know the various formalities of the banks in obtaining the loans. Also the banker insisted for a substantial guarantor and in order to avoid all these, he had borrowed from the Friends and Relatives to start the business early.

All the sales were made to a medium sized company in Pune, who did not pay good price for the products and since the dies etc. were manufactured were especially made for the medium sized company, KSE unit could not sell them to any other company.

The owner took the risk himself and paid off the loan of Rs.10,000/- to the Friends and Relatives by selling some part of his property. The banks term loan of Rs.10,000/- was repaid to the tune of Rs.8,000/- and only Rs.2,000/- was outstanding as on the date of survey.
It was ascertained from the bankers that the unit was really doing well during the first 8 years and was regular in repayment of the term loan. But after some time due to inflation and rise in the cost of raw materials and labour charges, the unit's activities slowly began to decline. The unit had approached the bank in 1975 for working capital requirements, and were asked by the bankers to submit the past records of his performance. But since the units' sales were decreasing over the years, the unit knew that his loan would not be sanctioned by the bank. He was also ignorant of the various documents required by the banks for sanctioning any loan.

The bank was ready to guide him, but the unit did not take much interest in his business as he started another line of business by then and the unit was finally closed in 1978.

CONCLUSION :-

The owner of the unit stated that if the Bank had helped him in 1975, there would have been revival of the unit as the job he performed was not done by any other unit in Pune. It is due to the lack of interest on the
part of the banks to nurse a unit results into closure of
the units was the stand taken by the entrepreneur. This
contention is not true. The entrepreneurs are equally or
more responsible in running their business and earning
profits and should not depend fully on the bank's credit.

CASE II: S.D.C.

S.D.C. a chemical unit was established in 1971, as
a partnership concern with a capital of Rs.30,000/- contri-
buted by the partners. Its products were Textile Dye
Stuff and Textile Auxiliaries.

One of the partners is a Post Graduate in Science
and worked as a Demonstrator in a College before starting
his business. He was managing the business. This unit is
situated at Maharashtra Industrial Development Corporation
Pimpri, Pune.

The following limits were sanctioned to the unit
by a Nationalised bank in 1972 -

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash credit (Against Book Debts)</td>
<td>1,00,000</td>
</tr>
<tr>
<td>Bills discounting limit</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Term Loan</td>
<td>35,000</td>
</tr>
<tr>
<td></td>
<td>--------------</td>
</tr>
<tr>
<td>Total</td>
<td>3,35,000</td>
</tr>
</tbody>
</table>

No other borrowings were made from any other
Financial Institution.
The average annual sales of the unit based on last 3 years average were Rs. 8 lakhs and the average loss (annual) was Rs. 85,000/-.

The unit has 12 labourers in all, out of which 2 skilled, 4 semi-skilled and 6 unskilled. The rates paid were Skilled - Rs.350/- p.m., Semi-Skilled - Rs.280/- p.m. and Unskilled - Rs.250/- p.m. (Annual labour Cost Rs.8,400 + 13,440 + 18,000 = Rs. 39,840/-).

The Raw materials are purchased from Pune, Bombay, Ahmedabad and Delhi, and are bought in the open market. No assistance is given by the District Industries Centre in this regard.

The products are sold on 100% credit and the payments are received ranging between 120 days and 180 days, while the suppliers of raw materials allowed only 1 month credit period.

It was ascertained that the unit was incurring losses for the past 3 years and the maximum loss incurred was in 1979-80 which amounted to Rs. 1,37,000/-.

Since the unit was showing continuous cash losses for 3 years, the bank treated this unit as a "sick unit" and stopped further operations in the account. There were other symptoms of sickness also which are as follows :-
(1) The average cost exceeded the average returns, thus resulting into decline in profits.

(2) No margin money available to avail working capital from the bank.

(3) Heavy accumulation of finished goods.

(4) No cash available to repay the loan instalments and interest payment to the bank.

(5) There was arrears in payment of Sales Tax and Income Tax dues.

(6) Cash in hand/bank very meagre even to meet the current liabilities, e.g. the payment of wages to the workers and payment of electricity, water bill etc.

(7) Strained relations with the workers due to non-payment of wages in time had resulted into their leaving the jobs.

(8) Sales were practically stagnant resulting into stoppage in production.

(9) Trade creditors insisting for payment of their bills, while debtors were enjoying long periods of credit.

(10) Stock statements not submitted for the last 4 months.

(11) Cash credit account is out of order for a long time, i.e. over 8 months.

The following was the position of the various facilities obtained from the bank as on the date of survey:–
Cash Credit (Against Book Debts) 1,50,000
Bills discounting limit 26,000
Term loan (Instalments + Interest) 23,500

Total outstanding Rs. 1,99,500

Rounding off into lakhs, we may take Rs. 2.00 lakhs.

It was revealed that though the bank had sanctioned a Cash Credit limit of Rs. 1.00 lakhs only, it was allowing the unit to avail upto Rs. 1,50,000/- i.e. in excess of the limits sanctioned for temporary periods which later on became the regular feature of the unit.

This unit had also borrowed from the private money-lenders to the tune of Rs. 15,000/- in 1978 @ 25% rate of interest per annum for meeting the wages payment of the workers.

Reasons for Sickness :

(1) The Raw Material prices were increased by about 70%.
(2) Potential market could not be exploited for selling the products as marketing method was poor.
(3) The Debtors extended their credit period which ranged between 4-6 months.
(4) Though there is great demand for the chemicals produced by this unit, the (customers) textile owners are not getting the returns due to lower demand of their final product because of high prices fixed by them. Hence this unit is suffering as it produces the chemicals required for a particular purpose only by a very few textile owners.

(5) One product was to be discontinued as the customer himself started producing the chemical required.

(6) There was a fire in the factory due to short circuit in 1980 and the actual loss estimated was to the tune of Rs. 1,20,000/-. Out of this amount only 50% i.e. Rs. 60,000/- was realised from the Insurance Company.

**THE BANK'S APPROACH :**

After studying the proposal thoroughly, and after satisfying that the unit will be able to overcome the deficiencies which led to sickness and the future course of action prepared by the unit for diversifying the products for its future growth, the bank had decided to take up the unit under the nursing programme.

Thus the bank considered granting of Rs. 50,000/- to the unit in 1980 just to purchase Raw Materials.
RESULTS:

The unit stated that since the amount sanctioned was very meagre, it could not be utilised for productive purposes. Hence it was not availed. The unit therefore could not produce anything and only depended on the bank's mercy.

OPINION OF THE UNIT AND SUGGESTIONS:

In the opinion of the unit, the bank should give at least an amount of Rs. 2.00 lakhs by which the unit will be able to manufacture 2 tonnes of the chemicals which will yield a profit of Rs. 35,000/- (Net). The unit stated that it is only the financial handicap which was responsible for its sickness and could again revive if the bank considered Rs. 2.00 lakhs as additional finance. The unit also admitted that it was allowed to draw in excess of the cash credit limits sanctioned by Rs. 50,000/- on a regular basis and hence had helped the unit to run the business at difficult times.

The only way out for revival of the unit is to diversify the products and manufacture some other items.

Another fact brought to the notice through the discussion was that this unit could not fix higher prices as there was exemption from excise duty for the product.
manufactured and hence the customers (textile manufacturers) wanted the products at lower prices. This unit therefore, could not adjust the extra margin of profit in the prices as otherwise would have been charged if excise duty was levied.

The unit suggested that if it approaches one established trading agency, it could boost up sales which will bring the unit into profits within 2 years as direct sales to the textile owners as was done till now resulted into delayed payments by them which made the unit sick. But again all this required Bank's finance.

**CONCLUSION:**

In this case the owner stated that the Bank had helped much by going out of the way and extending credit as and when needed. But if the Bank is now ready to accept further risk and invest an amount of Rs. 2.00 lacks in the unit, it could revive and repay the entire loan with interest within a span of 5 years.

The Bank's stand was that already the total outstanding were to the tune of Rs. 2.00 lacks and if another Rs. 2.00 lacks were sanctioned by it under the nursing programme, the total outstanding will be to the tune of Rs. 4.00 lakhs which is a risky venture as there was no security left with the unit to offer as a cover for the
additional sanction. Also, since the accumulated losses were also heavy it was not possible for the unit to return to profits within a span of 5 years and repay the entire amounts with interest.

The unit is therefore thinking of closing down completely.

CASE III : A C I

A C I is a chemical unit established in the year 1971. It was a Partnership concern. The business was started with Rs. 10,000/- as Capital contributed by the partners and Rs. 20,000/- borrowed from their relatives.

The main products of the unit were detergent for the manufacture of soaps. None of the partners was technically qualified. The unit was situated in the Bhosari Industrial Estate, Pune.

The credit facility availed was NIL and only clean overdraft to the extent of Rs. 5,000/- was obtained from a Nationalised Bank since 1975. The unit had Current Account with another scheduled commercial bank.

The unit’s building costing Rs. 50,000/- was on lease for 99 years and had purchased plant and machinery worth Rs. 30,000/- from its own capital contributed by the partners and relatives.
The unit was doing very well and its average annual sales were Rs. 78,000/- during 1975 while the average annual profits came to Rs. 23,000/-. The unit had not employed any outside labourers but the business was managed by the own members of the family and Rs.10/- per day was charged as labour charges from the business as there was only one "Bhatti" which involved manual labour. Electricity was also not used by the unit.

The raw materials were purchased in the open market from Pune, Bombay and Ahmedabad and no assistance was given by the District Industries Centre.

The products were sold on 100% credit. There was no delay in receiving the payments initially from the customers for the first 2/3 months but some big concerns did not pay the bills till the closure of the unit and deceived the unit.

The unit started incurring losses since 1976 onwards due to the following reasons :-

1. The prices of Raw Materials increased manifold i.e. nearly doubled.

2. The big companies did not pay the bills for which the funds were locked up.
(3) Since no credit facilities were enjoyed, the unit could not borrow from the bank on the strength of the stocks maintained by it.

Under such circumstances, the unit thought of diversifying its products by producing another chemical which had high demand in the market. For this purpose it approached the Maharashtra State Financial Corporation in 1976 for a term loan of Rs. 1,15,000/-. The loan application was considered by the Maharashtra State Financial Corporation against the equitable mortgage of the building and hypothecation of the plant and Machinery. The loan was not disbursed by Maharashtra State Financial Corporation on the plea that the partners had very low education and experience in the new field of business and that the unit was already incurring heavy losses of about Rs. 15,000/- per year.

The unit was hard pressed as the banks also did not consider the case due to heavy losses and since the unit had no securities to offer as the same were already committed to Maharashtra State Financial Corporation. Moreover, the unit was running into heavy losses and did not enjoy any loan previously from the banks. Hence the banks were unwilling to take up the unit under the nursing programme.
RESULTS:

The unit stated that because Maharashtra State Financial Corporation did not sanction the loan of Rs. 1,15,000/-, it had to close down. The unit stated that the banks did not support the small entrepreneurs in times of difficulties and insisted upon Guarantors and Securities.

Hence the unit was completely wound up in 1977.

CONCLUSION:

In this case, it was found that the partners were over confident about their business and tried to manage their business from the internal sources without approaching the banks. They also lacked in financial discipline as the credit sales made could not be realised by them, thus resulting into heavy losses.

CASE IV: J.S.M.

J.S.M. is a Printing Press unit established in 1932. The unit worked as Publishers initially and started working as Printers since last 30 years.

It is a Partnership Concern. The partners contributed Rs. 20,000/- as initial capital for starting the business. All the partners are having technical experience.
The unit is situated in the heart of Pune city. The unit was closed down in 1974 due to labour trouble in the Printing Press Industry which resulted into closure of many units big and small. It was restarted in 1978.

The unit could manage on its own resources till 1974 for its working capital needs since it worked as a Publisher of Text Books. Due to labour trouble in 1974 the unit suffered and the funds position became strained. Also due to the Government's decision of Nationalising the Publication of Text books the Printing Press units suffered. Hence this unit started undertaking printing jobs of private parties, Banks, industries etc. for which it availed Bank's finance in 1974 as follows, from a Nationalised Bank :-

Term loan for purchase of .. Rs. 1,50,000/-
Machines (Hypothecation)

Soon after availing the bank's finance the unit had to be closed down as stated below :-

(1) Due to Government's decision to Nationalise publication of Text Books
(2) Serious labour trouble.

The average annual sales were to the extent of Rs. 1.00 lakh in 1974.
On restarting the unit in 1978, the unit could make a sale of Rs. 2.40 lakhs and a profit of Rs. 10,000/- after meeting all the expenses.

The unit in 1974 had employed 12 workers and after restarting the business employed 20 workers as follows:

- Skilled: 6 Nos x (Rs.550 x 12) = Rs. 39,600
- Semiskilled: 8 Nos x (Rs.400 x 12) = Rs. 38,400
- Unskilled: 6 Nos x (Rs.350 x 12) = Rs. 25,200

Total = Rs. 1,03,200

The Raw Materials i.e. paper was mostly supplied by the customers and in certain cases only paper was bought from the Pune and Bombay markets.

The sales were made on 100% credit and the unit did not find any difficulty in receiving the payments as payment was received within 30-60 days.

RESULTS:

On restarting of the unit in 1978, the unit borrowed from the Bank Rs. 50,000/- Cash Credit limits for the working capital requirements under the Nursing Programme. The bank took a great risk that a unit which was closed down for 4 years and could not repay the term loan and interest thereon was allowed working capital facility of Rs. 50,000/- for restarting the unit.
This bold step taken by the Bank revived the unit and the following results were seen:

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Rs.)</th>
<th>Profit before tax (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>2,42,000</td>
<td>10,000</td>
</tr>
<tr>
<td>1979-80</td>
<td>3,47,000</td>
<td>28,000</td>
</tr>
<tr>
<td>1980-81</td>
<td>4,11,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

Thus from the above figures, we can see that the Nursing Programme undertaken by the bank boldly resulted in the unit's revival and turning into profits.

The unit is now paying Rs.28,000/- (average) interest on loan from the bank per year and term loan instalment which is rescheduled by the bank to the extent of Rs. 30,000/- per year.

CONCLUSION:

The unit stated that it is only for the bank's assistance that the unit could be restarted and the bold approach made by the bank officials to nurse the unit should be really appreciated. The bank officials stated that the banks always looked at the units from a suspicious angle and felt that all sick units are bad and nursing should be done only in a few cases.

Thus from the above example it can be concluded that the circumstances which lead to the closure of the
units should be taken into account instead of the causes for failure of the units and individual cases dealt with. The same norms or yard-stick should not be applied for all units and the reasons for sickness given in various books should not be followed in judging a unit's performance.

In the words of Douglas C. Bazil "The smaller businessman in order to strengthen his chances for survival must be aware of accepted cost practices, financial ratios and other operating standards which enable him to test and improve his position both financially and marketwise". 4

4 University of Minnesota
Studies in Economies and Business Organisation
and Control of the Smaller Enterprise
- Douglas C. Bazil
(The University of Minnesota Press
No. 20, Minneapolis) 1959.