CHAPTER - V
SICKNESS IN INDUSTRY
Definition, causes, extent, indicators of sickness and prevention:

INTRODUCTION:

Small-scale industries occupy an important place in the economy of our country in view of their labour-intensive nature and huge employment potential. From less than 10 lakhs in early ’80s the number of SSI units, registered with the state directorates of industries, was 22.35 lakhs in 1992-93 producing an estimated Rs.2,09,300 crores of gross output which was more than seven times their output in 1980-81 at current prices. The increase in employment has been less than commensurate, from about 71 lakhs in 1980-81 to an estimated 134.1 lakh in 1992-93. Nevertheless, this employment expansion has been significant as the entire organised private sector could boast of a direct employment of not more than 80 lakhs at the end of March, 1993 and had been able to generate not more than 6 lakh additional jobs during the 13 year period since the beginning of 1980’s. This compares with the increase in employment of over 60 lakhs in the SSI sector. The SSI sector has been estimated to contribute 6.9% of net domestic product, 35% of value added in the entire manufacturing sector and 30% of the country’s exports1.

Keeping in view the importance of SSI, government has introduced various procedural simplifications to promote this sector. A new legislation called “Interest on the Delayed Payments Act, 1993” has been enacted to ensure prompt payment to the small scale units. It has also been decided to train unemployed non-technical graduates so as to increase the availability of managers for the SSI sector.

Recently, in a significant policy change, Government has notified that job workers would no longer be required to pay excise duty on goods made by them on a job work basis and which are returned to the supplier (small-scale industrial unit) for further manufacture of goods. Any small scale unit entitled to the benefit of concessions under the general small scale exemption scheme can now send the specified inputs without payment of excise duty to a job worker.

When the country is trying to forge ahead with its planned economic development, especially industrial one, industrial sickness has emerged as a serious problem affecting small, medium and large industrial units in India. It is pervasive across ownership (public or private sector) across industries, across states and across scale (small, medium and large). It is a major area of concern due to its implications for the entire economy and health of the industrial sector in particular. Sporadic closures of industrial units and bankruptcies are a normal feature all over the world. The incidence of closures

2. APSIA BULLETIN, Jan-Feb. 1995, Volume.54, No.1 P.P.15
tend to be high in the economies characterised by fierce competition and in the industries with high degree of obsolescence.

Developed economies with well established social security systems, easily absorb the ripples caused by such closures. Again in the developed countries firms cannot remain sick for long: these either have to reorganise their assets, liabilities, product-mix, capital stock and labour force or retreat from the production stream. Unfortunately in India we maintain and exacerbate sickness without restructuring economically viable ones or closure of non-viable sick units. Developing economies like India, with their limited investible resources, however, can hardly afford their productive assets turning non-operational. Industrial sickness has, therefore, to be handled promptly. Every effort has to be made to revive the sick units and prevent other units from falling sick.

The early symptoms of sickness could include failure to pay on time the statutory liabilities/installment of principal and interest on loans taken from banks and financial institutions and through public deposits, increase in inventories, high rate of rejection of goods manufactured, low capacity utilisation and frequent industrial disputes.

The incidence of industrial sickness has been a matter of grave concern for banks and financial institutions on account of its far reaching implications for the country’s economy, in general and the industrial sector in particular. It reflects adversely on the resource position of lending institutions and the management of the industrial sector.
The draft approach paper of the eighth plan (1990-95) observed as follows:

"The seventies and eighties have witnessed increasing incidence of sickness among industrial enterprises. These are a drag on the economy and the resources required for development. Wherever possible, it is obviously desirable to help revive sick units and make them viable through modernisation or diversification. But units which are unlikely to become viable cannot legitimately claim continued support by way of resources from the state. Provision should be made for retraining and deployment of labour".

**Definition of sick unit:**

Definition given under sick industrial companies (special provisions) Act, 1985.

Sick Industrial Company means an industrial company (being a company registered for not less than 7 years) which has at the end of any financial year accumulated losses equal to or exceeding its entire networth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year. In this context cash loss means loss as computed without providing for depreciation. Networth is the sum total of paid up capital and free reserves and free reserves means all reserves credited out of profits and share premium account but does not include reserves carried out of revaluation of assets, write back of depreciation provision and amalgamation.
This definition, however, is applied only to large and medium scale units and does not apply to Government Company’s and SSI units.

DEFINITION GIVEN BY RBI:

i. Weak Units (Medium and Large):

   Industrial Units (excluding SSI Units) not covered by the Act and satisfying the following criteria will be termed as Weak Units, to distinguish them from sick industrial companies as defined in the Act.

   An industrial undertaking will be classified as weak if at the end of accounting year it has:
   
   – accumulated losses equal to or exceeding 50% of its peak net worth in the immediately preceding five accounting years:
   
   – a current ratio of less than (1:1); and
   
   – suffered cash loss in the immediately preceding accounting year

   The weak units will include all categories of borrowers, i.e. Limited Companies, Partnership Firms, Proprietary concerns etc.

ii. Sick SSI Unit:

   An SSI unit may be classified as sick when any of its borrowal account has become a “doubtful” advance i.e. principal or interest in respect of any of its borrowal accounts has remained
overdue for a period exceeding two and half years, and there is erosion in the net worth due to accumulated cash losses to the extent of 50% or more of its peak net worth during the preceding two accounting years.

MAGNITUDE OF INDUSTRIAL SICKNESS:

At the end of September 1992, there were 2.35 lakhs sick or weak industrial units. Around 99% of these or 2.33 lakh were in the small scale sector. The total bank credit locked up in 2,47,924 sick/weak units increased from Rs.11,533.30 crore as at end-March 1992 to Rs.12,586.41 crore in 2,35,868 units as at end-September 1992, constituting 17.6 per cent of the total outstanding bank credit to ‘Industry’ at the end of 4 September 1992. The following table shows the extent of industrial sickness in the country:

**TABLE NO: 16 INDUSTRIAL SICKNESS AS AT THE END OF SEPTEMBER, 1992**

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of units</th>
<th>Amount O/g. (Rs. in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSI Sick</td>
<td>233441</td>
<td>3345.54</td>
</tr>
<tr>
<td></td>
<td>(98.97)</td>
<td>(26.59)</td>
</tr>
<tr>
<td>Non-SSI Sick</td>
<td>1,599</td>
<td>6804.52</td>
</tr>
<tr>
<td></td>
<td>(0.67)</td>
<td>(54.06)</td>
</tr>
<tr>
<td>Non-SSI weak</td>
<td>8282</td>
<td>2436.35</td>
</tr>
<tr>
<td></td>
<td>(0.36)</td>
<td>(19.35)</td>
</tr>
<tr>
<td>Total</td>
<td>2,35,868</td>
<td>12,586.41</td>
</tr>
</tbody>
</table>

(figures in the brackets are % age to the total)
When we look at the above table it is interesting to find that while 99% of sick units are in the small scale sector the outstanding bank credit locked up in them is around 27% only as against 73% in medium and large scale units. The dimension of industrial sickness is given in the following table:

**TABLE NO.17  INDUSTRIAL SICKNESS**

(Rs. in crores)

<table>
<thead>
<tr>
<th>Number of units</th>
<th>Amount outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>End Dec.</td>
</tr>
<tr>
<td>Non SSI Sick</td>
<td>1241  1455</td>
</tr>
<tr>
<td>Non-SSI weak units</td>
<td>770  814</td>
</tr>
<tr>
<td></td>
<td>242534</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Change over previous year-percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSI</td>
</tr>
<tr>
<td>Non SSI Sick</td>
</tr>
<tr>
<td>Sick Non SSI weak units</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: RBI Reports on Currency and Finance.
There has been a decline in the number of sick SSI Units by 3 per cent during December 1988 and September 1992. However, during the same period the locked up funds in sick SSI units increased by 56 per cent. On the other hand during the same period the number of non-SSI sick and weak units went up by 28 per cent and 7 per cent respectively. The outstanding credit in these non-SSI sick and weak industries also increased by 100 per cent and 11 per cent respectively during the same period.

The total bank credit locked up in sick/weak units at the end of September, 1992 constituted 17.6 per cent of the total outstanding bank credit to Industry.

The magnitude of sickness continues to be a serious cause for concern more so as the viability of sick/weak units is assessed to be quite low. According to RBI report on Currency and Finance 1993-94 the viability studies conducted by commercial banks in respect of 2,31,058 units as at the end of September, 1992 showed that 17,450 of these units were considered as viable5.

Industry wise, the incidence of sickness or weakness in the non-SSI sector in terms of credit outstanding was the highest in Textiles (21%) followed by Engineering (18%), Chemicals (10%), Iron & Steel (6%), Electricals (5.2%) and Paper (4.32%). For the non-SSI sector the industry wise break up is given in the following table:

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### Table No: 18. Sectorwise breakup of Non SSI Sick & Weak Units (End September 1992)

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of Units</th>
<th>Amount O/G (Rs. in Crores)</th>
<th>% Share in total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>381</td>
<td>1678.26</td>
<td>18.16</td>
</tr>
<tr>
<td>Electrical</td>
<td>70</td>
<td>509.76</td>
<td>5.52</td>
</tr>
<tr>
<td>Textiles</td>
<td>440</td>
<td>1971.84</td>
<td>21.33</td>
</tr>
<tr>
<td>Jute</td>
<td>52</td>
<td>194.13</td>
<td>2.10</td>
</tr>
<tr>
<td>Paper</td>
<td>138</td>
<td>399.47</td>
<td>4.32</td>
</tr>
<tr>
<td>Rubber</td>
<td>37</td>
<td>120.78</td>
<td>1.30</td>
</tr>
<tr>
<td>Cement</td>
<td>59</td>
<td>339.95</td>
<td>3.67</td>
</tr>
<tr>
<td>Iron and Steel</td>
<td>157</td>
<td>638.31</td>
<td>6.90</td>
</tr>
<tr>
<td>Sugar</td>
<td>39</td>
<td>151.80</td>
<td>1.64</td>
</tr>
<tr>
<td>Chemicals</td>
<td>208</td>
<td>940.33</td>
<td>10.17</td>
</tr>
<tr>
<td>Others</td>
<td>846</td>
<td>2296.24</td>
<td>24.89</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2427</strong></td>
<td><strong>9240.87</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>


The industry wise classification of sick SSI units shows the highest incidence in the engineering sector with 18 per cent of the total outstanding credit locked up in these units. It is followed by chemicals with 9 per cent and textiles with 6.57%.

The industry wise classification for sick SSI units is given in the following table:
TABLE NO. 19 INDUSTRY-WISE CLASSIFICATION OF SICK SSI UNITS AND OUTSTANDING BANK CREDIT AS AT THE END OF SEPTEMBER, 1992

<table>
<thead>
<tr>
<th>Industry</th>
<th>No. of units</th>
<th>Amount O/S</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>26,954</td>
<td>619.59</td>
<td>18.51</td>
</tr>
<tr>
<td>Electrical</td>
<td>6,890</td>
<td>202.10</td>
<td>6.04</td>
</tr>
<tr>
<td>Textiles</td>
<td>18,869</td>
<td>219.82</td>
<td>6.57</td>
</tr>
<tr>
<td>Jute</td>
<td>314</td>
<td>19.71</td>
<td>0.59</td>
</tr>
<tr>
<td>Paper</td>
<td>2,684</td>
<td>76.24</td>
<td>2.28</td>
</tr>
<tr>
<td>Rubber</td>
<td>2,952</td>
<td>57.56</td>
<td>1.72</td>
</tr>
<tr>
<td>Cement</td>
<td>1,300</td>
<td>25.27</td>
<td>0.75</td>
</tr>
<tr>
<td>Iron &amp; Steel</td>
<td>4,169</td>
<td>125.19</td>
<td>3.74</td>
</tr>
<tr>
<td>Sugar</td>
<td>348</td>
<td>15.45</td>
<td>0.46</td>
</tr>
<tr>
<td>Chemicals</td>
<td>10,206</td>
<td>314.40</td>
<td>9.39</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1,58,755</td>
<td>1670.21</td>
<td>49.95</td>
</tr>
<tr>
<td>TOTAL</td>
<td>233441</td>
<td>33345.54</td>
<td>100.00</td>
</tr>
</tbody>
</table>


REGIONWISE AND STATE WISE SICKNESS:

Western region has the highest incidence of industrial sickness in the non-SSI sector accounting for 31 per cent of the outstanding credit to sick units in the country. Southern, Eastern and Northern region follow with 26.90 per cent, 20.87 per cent and 20.76 per cent respectively of the bank credit
locked up in sick non-SSI units in the country. The number of units and the amount outstanding at the end of Sept. 1992 in the each region are given in the following table:

TABLE NO.20  REGIONWISE BREAK UP OF NON SSI SICK OR WEA UNITS (END SEPT.1992)

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of units</th>
<th>Amount O/S (Rs. in crores)</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern</td>
<td>481</td>
<td>1928.95</td>
<td>20.87</td>
</tr>
<tr>
<td>Northern</td>
<td>473</td>
<td>1918.33</td>
<td>20.76</td>
</tr>
<tr>
<td>Western</td>
<td>788</td>
<td>2908.39</td>
<td>31.47</td>
</tr>
<tr>
<td>Southern</td>
<td>685</td>
<td>2485.20</td>
<td>26.90</td>
</tr>
<tr>
<td>Total</td>
<td>2427</td>
<td>9240.87</td>
<td>100.00</td>
</tr>
</tbody>
</table>


Within the southern region A.P. Accounts for 39.95% of the outstanding credit to sick non SSI units.

When we look at the incidence of sickness in the SSI sector We find that Southern Region accounts for 31.16% of outstanding credit to sick SSI units in the country followed by Western (29.59), Northern (24.87) and Eastern Regions (14.38).
TABLE NO.21  REGION WISE DISTRIBUTION OF SICK SSI UNITS (END SEPT. 1992)

<table>
<thead>
<tr>
<th>Region</th>
<th>No.</th>
<th>Amount O/S (Rs. in crores)</th>
<th>% Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern</td>
<td>60856</td>
<td>480.99</td>
<td>14.38</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(23.94)</td>
<td></td>
</tr>
<tr>
<td>Northern</td>
<td>63171</td>
<td>832.16</td>
<td>24.87</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(26.39)</td>
<td></td>
</tr>
<tr>
<td>Western</td>
<td>35744</td>
<td>989.93</td>
<td>29.59</td>
</tr>
<tr>
<td>Southern</td>
<td>73670</td>
<td>1042.46</td>
<td>31.16</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(29.24)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>233441</td>
<td>3345.54</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Figures in the bracket are %age to the total.


TABLE NO.22 SICK UNITS - STATE- WISE PERCENTAGE SHARE IN TOTAL OUTSTANDING BANK CREDIT

<table>
<thead>
<tr>
<th>State/union-territory</th>
<th>Non-SSI Sick</th>
<th>Non-SSI Weak</th>
<th>Sick SSI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Period I</td>
<td>Period II</td>
<td>Period I</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>27.7</td>
<td>23.3</td>
<td>20.7</td>
</tr>
<tr>
<td>West Bengal</td>
<td>15.7</td>
<td>13.6</td>
<td>18.1</td>
</tr>
<tr>
<td>Gujrat</td>
<td>13.6</td>
<td>9.1</td>
<td>6.2</td>
</tr>
<tr>
<td>Tamilnadu</td>
<td>8.0</td>
<td>6.7</td>
<td>*</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>4.6</td>
<td>6.3</td>
<td>12.5</td>
</tr>
<tr>
<td>Karnataka</td>
<td>5.3</td>
<td>5.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Kerala</td>
<td>*</td>
<td>*</td>
<td>6.4</td>
</tr>
</tbody>
</table>
Now let us have a look at the state wise percentage share in total outstanding locked up in sick/weak units. As can be seen from the above table, Maharashtra tops the list with 27.7%, 20.7% and 19.6% of bank advances locked up in Non-SSI Sick, Non-SSI Weak and Sick-SSI units respectively as on December 31, 1988. More or less similar picture emerges at the end of March 1992 except for the fact that now Uttar Pradesh takes the lead among Non-SSI Weak followed by Karnataka, West Bengal and Maharashtra.

West Bengal, Gujarat and Andhra Pradesh follow, next to Maharashtra, among Non-SSI Sick with 13.6%, 9.1% and 7.9% during the period ending with September, 1992. Among sick SSI units next to Maharashtra are Tamilnadu, Andhra Pradesh and West Bengal. Some of the general observations that can be noted from the above table are:

- Maharashtra tops the list among Non-SSI Sick and Sick SSI in terms of bank credit locked up. However, with
regard to Non-SSI Weak units this state improved its position between period I & II as can be seen from the decline in share from 20.7 to 9.5. In other words some of the weak units could turn the corner by overcoming their problems.

- Tamilnadu which ranks 5th and 7th or so with regard to Non-SSI Sick and Weak units takes 2nd place, next to West Bengal in terms of share in total outstanding bank credit locked up in sick SSI units.

- Andhra Pradesh which was in 5th place during period I climbed up and took 3rd place, next to Tamilnadu, during period II in advances to sick SSI units.

- Tamilnadu takes the lead in Non-SSI Sick advances whereas it’s the turn of Karnataka to notch up that place in advances to Non-SSI Weak units among the southern states.

- Andhra Pradesh which is either at 4th or 5th place in advances to Non-SSI Sick and Weak units takes 3rd place in terms of share in total outstanding bank credit to Sick-SSI units.

Subrahmanian and Mohan Pillai also arrived at similar conclusion in their study, according to which closed units as a % age of working units (proxy for incidence of industrial sickness) was of lower magnitude in Andhra Pradesh (1987-88
-37.78%) as compared to all India (52%), Gujarat (55%) and Tamilnadu (43%).

EXTENT OF SICKNESS IN UNITS ASSISTED BY APSFC:

The latest year for which arrears (taken as proxy for incidence of sickness), industry wise and activity wise, figures are available is 1991-92. Hence, the analysis of arrears, which is fairly good indicator of unit falling sick, being presented below pertains to 1991-92.

The Corporation has sanctioned, as on 31-3-1992, loans to 64,643 units amounting to Rs.1736.07 crores.

The details of arrears as on 31.3.1992 are furnished at the end as annexures - 4 to 9. Age wise analysis of principal in arrears reveals that 38.81% of the principal in arrears is blocked in the accounts of units that have defaulted for a period of 0-3 months. The age wise analysis of principal and interest in arrears shows that the arrears pertaining to period of 6-12 months and 12-24 months work out to Rs.2334.72 lakhs and Rs.2258.48 lakhs respectively. This indicates that the major share of the overdues is blocked in chronic cases, with most of the units turned sick.

The analysis of arrears according to the amount sanctioned is given in annexure-6. This shows that the arrears of about Rs.6,418.33 lakhs (48.18%) and Rs.2,182.77 lakhs (16.38%)

are blocked in the units for which the assistance sanctioned, ranged between Rs.1.00 lakh to Rs.5.00 lakhs, and Rs.5.00 lakhs to Rs.10.00 lakhs respectively. The industry wise break up of arrears (Annexure - 7) shows that chemicals manufacturing units and food processing units contribute to arrears of Rs.1,642.56 lakhs and Rs.1,509.29 lakhs constituting 12.33% and 11.33% respectively of the total arrears.

The district wise analysis is shown in Annexure - 8. In the case of the backward districts, the arrears of Rs. 2,367.35 lakhs were blocked in the units located in Medak district constituting 17.77% of the total arrears. In the case of districts other than backward, major amount of Rs.2,217.03 lakhs was blocked in the units located in Ranga Reddy district constituting 16.64% of the total arrears. The share of Krishna District in total arrears is 2.78% i.e. second from below among the forward districts. Among the forward districts next to Ranga Reddy are Hyderabad (7.51%) and Guntur (5.52%).

A look at the scale-wise break-up of arrears (Annexure - 9) Shows that small scale sector accounts for 70% of the total arrears as against 26% by medium scale and 4% by tiny units. This is in contrast to the picture that emerged when we analysed incidence of sickness at the end of September, 1992 where in sick SSI units accounted for only 27% of outstanding bank credit as against 73% in medium and large scale units. The possible reason for this could be is that SFC mostly deals with small scale industrial units.
The new policy of liberalisation brought about big changes in the financial sector. The IDBI and SIDBI, the major refinancing institutions revised their rates of lending drastically upwards in two, three spurts. Later, the rates were reduced in small doses. While this resulted in the interest rates getting closer to the market rates of interest, the frequent changes and the expectations of a downward revision kept most of the serious entrepreneurs away from making big loan commitments. This may be one of the reasons for a less than spectacular rise in the Corporation's loaning since the dawn of the new era.

So in the changed circumstances, when the Corporation has to perform its traditional role of providing long term assistance to the SSI sector and still keep itself sufficiently healthy to be able to tap resources from the market on market related terms, it is necessary to restructure itself. While the past experience of servicing the small scale industrial sector is a major strength the same experience has also resulted in some rigidity in approach. It is somewhat difficult to bring about an overnight transformation-from an organisation which gave credit on concessional terms to a limited sector in an almost monopolistic market to one which should provide diversified fund based and non-fund based financial services to a variety of better class customers who have alternate choices and agencies available to them. The Corporation has changed with the changing times. It takes much less time to process applications, much less to disburse and also takes stringent timely action to recover whenever a case is diagnosed.
as beyond revival. The fact that more than 12,217 accounts out of the total 18,829 accounts in arrears have arrears of less than one year is ample testimony to the strength of the Corporation.

CAUSES OF INDUSTRIAL SICKNESS:

As it is said earlier, industrial sickness does not occur overnight. No single cause can be attributed to be wholly responsible for the sickness of the unit. It is the variety of causes forming complex environment which happens right under the nose of management and gradually develops in unmanageable proportions. Many studies have grouped the causes of industrial sickness into external factors and internal factors. Some of the internal factors are as follows:

a) **Managerial:**
- Incompetence of management
- Lack of financial resources
- Poor management of men, material and resources
- Poor working capital management
- Lack of professionalism
- Bureaucratical style of functioning
- Too much dependence on one man for everything
- Close knit group dominating in Board
- Incompetent Chief Executive
- Nepotism
- Lack of cohesion, and an environment of suspicion among promoters
- High centralisation of power and poor delegation
- Disinterest of management to give due importance to R&D and innovativeness
- Soft and happy-go-lucky nature of management

b. **Technical:**
- Poor selection of project site
- Delay in project implementation, hence cost overruns
- Poor infrastructural facilities
- Obsolete technology
- Improper line balancing
- Poor selection of machinery
- Excessive installed capacity
- Excessive investment in fixed assets
- Lack of skilled and competent work force
- Incapacity of product diversification

c. **Product Market:**
- Improper market survey at the final stage
- Unrealistic estimation of product life cycle
- Poor quality of product
- High rejections
- Improper pricing
- Inadequate promotional techniques
- Poor marketing strategy
- Poor MIS
d. **Operational:**
- Poor selection of machinery leading to frequent breakdowns
- Poor industrial relations leading to ‘cat call’ strikes, slowdown tactics etc.
- Poor quality consciousness leading to high rejections
- Demotivated supervisory staff at shop floor level
- Lack of importance to value analysis and value engineering techniques
- Disinclination to utilise industrial engineering techniques
- High inventory levels
- Poor maintenance management
- Reworking/longer process time

e. **Financial:**
- Improper project cost estimation
- Lack of practices such as standard costing
- Poor financial policies in relation to cash management working capital etc.
- Indiscriminate drawing of funds by promoters
- High overheads and its relation to estimation
- High capital gearing
- Overtrading

**External factors:**
- Unrealistic consultancy services obtained through consultant agencies
- Shortage of raw materials
Indifferent attitude of financial and other lending institutions
- Changing pattern of consumption
- Rapid change in technologies
- Improper licencing policies
- Fluctuations in economy
- Devaluation of currency and inflationary trends
- Excessive power cuts
- Government controls on price and supply
- High taxation
- Local environment
- Poor appraisal techniques by financial institutions
- Changes in international economy

In addition to the above recent government policy measures are said to be adding fuel to the fire. Some of these policies are:

With a view to ensure balanced regional development Central and State Governments have introduced incentive schemes from time to time to attract industrial units to backward areas. Though this is a welcome feature, the problem is that in these locations there are so many constraints such as shortage in supply of raw materials, power and under-developed infrastructural facilities leading to the problem of sickness.

Secondly, recently Government of India passed a bill to protect the environment and ecological system from pollution. Hence the prospective entrepreneurs interested in setting up
industrial ventures have to shoulder the responsibility of taking up anti-pollution measures which calls for additional investment. This additional cost has now to be borne out by industrial units while hitherto that was not the case. Thirdly, both the Central and State Governments, in their anxiety to solve the growing unemployment problem, are persuading the educated youths to take up self-employment, through some specific schemes such as TRYSEM (Training of Rural Youth for Self-Employment) and SEEUY (Self-Employment for Educated Unemployed Youths). Youths who are unable to find secure jobs, who are not interested in industry and lack the ability to run industries are forced to enter into this activity. With the result, these individuals are leading their industrial units along the road to sickness. APSFC too has burnt its fingers by financing some of the educated unemployed under Self Employment Scheme. Majority of the units financed under the scheme could not survive and only a hand ful of units could with stand the forces of competition and other problems. Added to the above dimensions, now there is a talk of rural industrialisation particularly in the area of food processing by the central government. It has been proved more than once that it is very difficult to make any programme a success in the kind of rural setup that we have today. For, there are many constraints in the rural economy such as input bottlenecks, lack of market and the like which will constrain any effort at industrialising the rural areas. In spite of these warning signals if attempts are made to start industries in the rural areas they are bound to run into the red.
INDICATORS OF INDUSTRIAL SICKNESS:

There may not be any industry where they might not have faced financial difficulties, labour problems, market constraints, recessions in demand at one time or the other. These sorts of ups and downs are bound to crop up now and then, but their persistencies are something which causes concern since it tends to pull the unit into sickness. It should be remembered that sickness does not develop accidently but mostly it is bred within the unit. That the unit has become sick means that the management has not noticed these signals which generate periodically or has totally ignored them. The fact is that while people around us sense it fairly early, we fail to take note of them for taking necessary action.

It is thus very essential that the signals should be studied, analysed and necessary timely corrective action is taken. It should be borne in mind that a symptom for a weak unit and a financially good unit should be analysed in different context. While for a weak unit such symptoms turn out to be grave, a sound unit could maneuver the same with a little better planning. Thus symptoms should be seen with a positive approach and identified properly.

These symptoms could be studied under two heads, viz., visible i.e., those which could be seen in day-to-day operation and the other, latent i.e. which shall be known over a period of time.
VISIBLE SYMPTOMS:

**Liquidity constraint:** The company faces shortage of liquid sources and thus will be unable to meet its current liabilities. The current liabilities which are to be paid immediately could be:

a. Payment of wages, salaries and power dues:
   
   This has a top priority in liquidation of current liabilities and non-payment of these could cause penal action under Payment of Wages Act, 1935 besides attracting the wrath of workers. Non-payment of power dues could lead to disconnection of power supply and consequent disruption of production process. These are thus extreme cases of liquidity stringency.

b. Payment of Statutory dues:

   Such as E.S.I.Fund, E.P.F. Sales Tax, Advance Income Tax etc., and non-payment/remission invites penal action.

c. Trade credit and short term deposits:

   Another indicator is the non-clearance of trade credit which is in accordance with the nature of business. This leads to loss of confidence with suppliers and hence may result in loss of this facility. Further if short term loans are not repaid in time it shall lead to further difficulties by necessitating borrowings at higher interest.
d. Payment of interest etc.,:

Non-payment of interest and failure to keep up the commitments to financial institutions is a clear indication of liquidity constraints. This could invite levy of penal interest besides recall of total loan and other recovery action which may threaten the very existence of the unit.

e. Irregularity in Bank Account:

A bank account becomes irregular when the debit balance is more than the sanctioned limits. Normally bankers do not allow such drawals but the account becomes overdrawn by debit of interest and other charges, return of bills and removal of hypothecated material, without prior approval. However liquidity problems could also arise due to:

i. Inadequate borrowing limits
ii. Higher inventories and poor collection of receivables
iii. Over trading

But these can be corrected by following better financial management policies. However, if the unit has liquidity constraints due to misuse of funds, return of bills and losses it indicates grave incidence of sickness.

f. Non or delayed submission of stock statements:

This is another visible indicator wherein the unit does not submit statement of stocks hypothecated to banks regularly. The reasons could be that the promoter does not intend to disclose the true state of affairs or the company is poorly
managed. Further, this could be either due to improper estimation of stocks or difference between the indicated figures and the actual figures. Sometimes the stock that is lying could be defective and not saleable. This signal alerts the bankers and is considered as a potential sickness indicator.

g. Low capacity utilisation:

This would mean that either there is lack of demand, shortage of raw-material, frequent breakdown of machines, or poor labour relations.

LATENT SYMPTOMS:

a. Declining Profit:

Declining profit could lead to cash losses, i.e. without provision for depreciation. The financial statements could also be misleading since proper provision of depreciation and bad and doubtful debts might not have been made. By not providing for these the company could have given an inflated figure about profits. Improper management of inventories is another potential cause for sickness. High stock of raw-materials, work-in progress and over valuation of them could indicate higher profit in balance sheet. Hence there is every need to analyse the balance sheet fully item by item to know the true state of affairs and to have clear picture of the health of the unit.

b. Financial Ratios:

Financial ratios are generally used for evaluating the health of the unit. These ratios indicate the liquidity, profitability and
viability of the unit. Hence, financial ratios are of utmost importance to the promoter, financial institution, creditors and investors. Various decisions could be taken based on analysis of the financial ratios. It can be stated that solvency and liquidity are the two vital organs of financial viability of the unit and profitability is life blood. Most commonly used financial ratios are:

- Profitability ratios
- Solvency ratios
- Liquidity ratios
- Turnover ratios

**sources of signals:**
The signals could be obtained from:

**a. ledger data:**

- Persistent irregularity in account
- Slow turnover in account
- Payment to unrelated parties
- Routing transactions through other banks

**b. stock statements and factory visits:**

- Irregularity in submission of stock statements
- High Inventory
- Unrealisable inventory on high side
- Misappropriation of stock
- Frequent breakdown in plant and machinery
ANALYSIS OF FINANCIAL STATEMENTS

This reveals

- Continuous decline of profits and increase of loss
- High debt level
- Shortage of Working Capital
- Diversion of Funds
- Change in accounting methods regarding valuation of stocks and depreciation

d. External sources:

Information could be had from external agencies such as market reports, press, bankers, similar units etc. and they reveal:

- recession in industry
- unsatisfactory market condition
- unfavourable change in Government policy as regards to imports and exports There are endless ratios. However, most commonly used ratios which signal sickness are as follows:

a. Cost of sales/sales (%) 
b. Gross profit/sales (%) 
c. Net Profit (after tax)/net worth (%) 
d. Net profit (after tax)/total capital employed (%) 
e. Net profit (before tax)/sales (%) 
f. Current assets/current liabilities (%) 
g. Total debt/net worth
h. Total inventory/sales (days/months) Finished goods/cost of sales (days/months) Raw materials/raw materials consumed (days/months) Stores/stores consumption (days/months)

i. Receivables/credit sales (days/months)

j. Sundry creditors/credit purchases (days/months)

SIGNIFICANCE OF THE RATIOS:

a. **Cost production/sales (%) :**

   It indicates how much could be the margin left over after meeting expenses and making provision. Lower percentage means higher profit. The ratio measures the operational efficiency of a firm keeping the cost of production at the lowest level. An abnormal increase calls for a thorough scrutiny.

b. **Gross profit/sales (%) :**

   This ratio indicates the gross earning capacity of the firm. This ratio normally is used to compare performance of similar units.

c. **Net profit/sales (%) :**

   This ratio also measures operational efficiency. It provides an analysis to see if the debt burden is heavy or low.

d. **Net profit/net worth :**

   This ratio depicts the earning power of the unit on the investment made. The study over a period of time could reveal whether the unit is successful or its performance is dropping. If the return is low it is a signal for sickness.
e. **Net profit/total assets:**

   In total assets normally operative assets are taken and intangible assets not included. This ratio is more useful to study units in a similar line. A lower ratio indicates a possibility of sickness.

f. **Current assets/current liabilities :**

   This is a very important ratio as far as liquidity is concerned, and bankers give utmost importance to this ratio. This ratio indicates the company’s ability to meet short term liabilities. If the ratio falls below 1, it calls for a thorough investigation. Too high a ratio also indicates poor inventory management.

g. **Total debt/net worth:**

   Increase in the ratio indicates higher debt burden. A ratio of 2:1 is generally accepted. Excess of equity also indicates improper usage of capital.

h. **Total inventory/sales :**

   This ratio indicates the rate at which the inventory is being converted into cash. It also indicates the level of stock maintained as on a given date and also discloses overstocking. It is normally expressed in months. A careful study of this ratio indicates whether the firm is carrying excess inventory than the desired level.

i. **Receivables/credit sales:**

   This ratio is also called as "average collection period". The banker is very much concerned with the degree of collections from the debtors as he provides finance for working capital.
It is expressed in months. A lower collection period indicates effectiveness of credit policy. A tabular form indicating the usefulness of various ratios is given in the end as Annexure -10)

PREVENTION OF SICKNESS:

It has been observed that there have been many causes for industrial sickness which has its effect either individually or with a combination of them. The reasons could be classified using Pareto’s analysis as:

a. a few causes which contribute maximum loss to the enterprise
b. a number of causes which contribute some loss
c. a large number of causes which contribute negligible loss

In this context it could be relevant to concentrate on those few causes which contribute maximum loss to the enterprise for eradication of sickness at incipient stage. In preventing sickness the following three have an important role to pay.

a. Entrepreneur
b. Term lending institution
c. Government

ROLE OF ENTREPRENEUR:

The entrepreneur to a large extent is responsible for the efficient running of his enterprise. He should be able to
manage the unit well and overcome deficiencies systematically by taking remedical steps at the right time.

He should pay adequate attention to the deficiencies pointed out by financial institution. He should select the machinery and process carefully, appoint financial and other staff in time, take all necessary steps to keep the cost of project as envisaged thus preventing the time and cost overruns. He should have a Board of competent and sincere persons from different disciplines and appoint a dynamic Chief Executive. He should act in such a manner that financial institution and bankers repose confidence in him. The term lenders and Banker consider themselves as partners of the unit, hence their help at critical junctures could help in overcoming real problems.

ROLE OF FINANCIAL INSTITUTIONS:

Financial institutions have also an important role to play in either preventing incipient sickness or in rehabilitating a sick unit. In many cases an entrepreneur approaches for financial assistance with a vague and unclear proposal or proposals with lacuna in selection of product, machinery, process, location etc. With the rich and varied experience the officers in the financial institution could give proper guidance in establishing a unit and then successfully running it. It is in this context that we analyse the role of financial institution with reference to:

a. Appraisal of the promoter
b. Appraisal of the product
c. Monitoring of the Unit:

i) during implementation state;

ii) during post-implementation stage.

It is accepted that the man behind the project is the key to the success of the unit to a very large extent. Hence when the institution initially takes up the project, it is essential to first appraise the entrepreneur thoroughly. Several entrepreneurial development programmes, unemployment, various incentive schemes of Government, have led to spurt in this class of personnel, thus giving a further stress and need of a detailed scrutiny of them. Various factors such as his background, educational qualification, family background, experience, his traits, leadership qualities, determination, need to be examined. Institutions of late have been screening them by including behavioural scientists, technical experts on the selection/interview panel.

The second aspect that needs a scrutiny is the appraisal of the product. The detailed SWOT analysis would be quite helpful in knowing the various facets of the product. With the growing technical obsolescence, severe market competition/changing consumer preference, the products are often placed in a disadvantageous position which could lead to sickness at incipient stage unless they are examined in detail. Further, the capacity of the unit to adjust to the future requirements by either no or small modification to the existing plant and process could go in a long way for the success of the unit.
It is in these two aspects that the appraising wing could prevent sickness at the incipient stage by critically analysing and turning down any un-economic, unviable proposal that may come before them.

**MONITORING THE UNIT:**

Experience of development banking has reinforced the belief that for effective implementation and hence success, a good follow-up mechanism is necessary. It means that an effective monitoring and constant re-evaluation of management performance. A delay in implementation could lead to project cost escalation threatening the very viability of the project. A basic organisation structure must be set up for the implementation of the project. Its objective shall be to provide professional expertise in fields of technical, financial, project management etc. Sometimes consultants/auditors need to be appointed so as to take up intensive monitoring of the units. This becomes more relevant in Indian context where inexperienced entrepreneur and a class of promoter with an proven record of delinquency also enter into the fray. The *most common problems that are encountered during project implementation are:*

**DELAYS:** While conscious effort is necessary to overcome delays, hence cost overruns, they do creep in either due to internal causes or dynamic economic environment. Delays at planning stage in obtaining licence, clearances, completion of legal formalities and finalising technical arrangements, at
construction stage, viz., obtaining permission, delays in construction, obtaining machinery, inability to obtain persons of high calibre, and at start up stage, viz., obtaining power supply, raw-materials, insufficient working capital, continual teething problems are some of the major problems which need special attention.

**OVERRUNS:** Overruns due to site development, excess building area, increase in cost of machinery, preliminary and preoperative expenses contribute to considerable cost escalation which needs to be curbed. In case of such incidence, the promoters inability to bring in the required funds leads deep into the spiral of sickness before the project takes off.

**MANAGERIAL PROBLEMS:** Project management is a specialised activity which requires specific application and planning. This normally is restricted to the top management and Board and the normal problems encountered are:

a. Lack of specialised knowledge
b. Inability to delegate
c. Attempt to run modern enterprise on family lines

There is a need to strengthen the weak areas of management by making proper appointments to overcome such deficiency. Appointment of a nominee Director also helps to certain extent.

**FINANCIAL PROBLEMS:** Inability to raise the margin required at the desired time, delays the project to a great extent. Besides, there has been a tendency in the incidence of growing preoperative expense. Improper planning in investment and
systematic implementation leads to financial stringency. This again shoots the entrepreneurs into the vicious web of cost escalation which he cannot cope up.

After the unit has been implemented, the unit now is ready to take off. This stage happens to be the weakest point in project. The promoter normally exhausts all his resources and unless well-planned, will not be in a position to take off. He will not be in a position to raise additional resources. It is at this stage that Bankers should come to the rescue. Normally commonly resorted to method is to obtain unsecured loans. In a situation where debt servicing capacity is already poor, this step leads to further difficulties.

TECHNICAL PROBLEMS: Condition of soil could be a deterrent factor in project cost escalation and has to be viewed properly. After the unit is erected, persistence of teething problems adds woes to the other problems, leading to considerable delay and expenditure. Not turning out the rated capacity and goods of inferior quality is another common problem.

It is in this context that financial institution has a major role to play. Progress reports and frequent inspections are the main tools which should be extensively used of to get the feedback and financial institutions should take necessary corrective action to prevent incipient sickness. The inspection could be as often as possible while progress reports should be at least of monthly duration. To derive the benefit of such reports, they should be scrutinised thoroughly and a record maintained. The formation of a report should contain:
Means of finance would indicate the flow of funds and would also indicate if the application of funds commensurate the need of the project. It should be seen if the plan is as per the agreed contribution that is necessary. Any delay noticed should be dealt with by financial institution with promoter. The arrangement made for working capital should also be explored. With reference to Government clearance, the approval to be obtained should be discussed and if need be the institution should take up the matter. The physical progress also should be analysed carefully and it has to be seen if there has been no deviation either in extent of construction, pre-operative expenses etc.

The progress report if viewed and scrutinised promptly will reveal the disturbing factor and it is at this stage that the correction action can be initiated to prevent the possible sickness.

**MONITORING DURING POST-IMPLEMENTATION STAGE:**

For the unit to survive and exist successfully, the institution also has a role to play. Unfortunately, many institutions pay scant respect to this aspect and concentrate mostly on repayment (interest and instalment). Very little attention is paid to study the state of affairs of the unit and the course it is taking. With the ever dynamic environmental condition, indiscriminate licensing, inflationary trends, changes in pattern
of consumption, the financial institution should continuously monitor the unit and prevent it from falling into clutches of sickness. The inspection report should contain details such as:

- Plant efficiency
- Production data
- Sales
- Profit
- Order book position
- Consultants to financial institution

This should be studied as how far these figures have fallen short to targetted figures, and how this unit fared with reference to similar units in industries. These reports along with Balance Sheet throw light on sickness such as level of inventory, quantum of receivables, quality of product etc. so as to take corrective action by taking such steps including modernisation, diversification etc.

A study was conducted by IDBI at several offices of financial institutions who were interviewed for identifying major steps to prevent sickness. About 15 major steps such as effectively monitoring project finance application and funded units, closer coordination of financial institutions, updating skills of appraising officers, were indicated and based on the questionnaire it was informed that the periodic financial report was seen as a most effective sickness preventive mechanism followed by periodic inspection of unit, inter-institutional meetings, training of appraising officers, market intelligence cells, and presence of nominee directors. Other factors indicated were reducing size of consortium etc.
It could therefore be seen that sickness prevention system could be by:

- Careful project appraisal
- Continuous monitoring of units at project implementation stage, post-implementation stage
- A professional and speedy coordinated efforts by financial institution in sanctioning and disbursing the loans.
- Providing incentives to remaining healthy units.

CONCLUSION:

The magnitude of industrial sickness has been on the rise over the years. While it is necessary to rehabilitate the sick units it is equally important to prevent units from becoming sick. It is rightly said that prevention is better than cure. The approach towards the rehabilitation of sick units has to be very selective and systematic. There is hardly any justification for throwing away further resources in support of the units which are irretrievably sick and can not be revived. Such units need to be closed down expeditiously so as to recycle their dead assets into the productive channels. Only those units which are found to be potentially viable need to be taken up for rehabilitation to restore health to them.

In this chapter we have discussed the extent and incidence of sickness apart from looking into the causes of sickness and various steps that could be taken to prevent the units from becoming sick. Now having done this let’s try to understand the various methods that are adopted for rehabilitation of sick units including role of different financial institutions in nursing the sick units back to health. Because a developing country like India cannot afford to leave locked up funds of financial institutions just like that without adding anything to the productive capacity of economy. Hence, the role of financial institutions, the prime actor, in rehabilitating and putting the sick units back on rail assumes added importance.