CHAPTER-VIII:

CASE STUDIES

In Chapter VII by using the questionnaire method and other statistical techniques we have presented and analysed the factors responsible for sickness among the sample units, for which purpose we have administered a structured questionnaire and supplemented it with interviewing the people concerned and Area Recovery Officers of the Corporation, apart from finding out the role of A.P.S.F.C., in either preventing sickness among its financed units or nursing the sick units back to health in the perception of entrepreneur.

However, most of the time the individual cases lose their importance and the peculiar features of the sample do not surface. Moreover the generalisation is good for understanding the state of affairs prevalent in general but it will not help for indepth understanding of the malaise/problem so that necessary suggestions/recommendations can be made to rectify the situation. Therefore the researcher has included a few case studies in his research methodology to understand the problems faced by the entrepreneur and how the Corporation could help them to over come the same.

Like any other sickness industrial sickness can not be perceived in a general manner and remedies can not be studied in a general way because the sickness is not an epidemic. Hence, the selection of a few case studies and their study. While preparing the case studies care was taken to
select those where different methods of revival have been adopted by the Corporation for either preventing sickness or nursing the sick units back to health.

We have selected Seven case studies and the lines of activities in which they are engaged are:

- Rigid PVC Pipes
- TV Deflection Components
- Straw Board
- Rice Mill
- Granite Strips/Polishing

Let us discuss the case one by one as under:

Case 1: Revival Package with Rescheduling of Loan

The Company X\(^1\) was sanctioned a term loan of Rs.39.50 lacs on 23.09.1988 for establishing a unit at Pedavutapalli, Krishna district for manufacturing rigid PVC pipes of size 110mm to 250 mm dia. The company was originally incorporated as private limited company and subsequently converted into a public limited company. The total cost of the project was Rs.59.30 lacs with a working capital margin of Rs.7.21 lacs. The promoter’s contribution in the projects cost was 19.5% and the Debt equity Ratio worked out at 2:1 which is quite satisfactory.

The Managing Director of the company is a postgraduate in science with 19 years experience in this industry and the

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1. For reasons of anonymity real names are not mentioned.
Executive Director who will be looking after the production also has 12 years experience in the industry. The product of the company is mostly used for rural water supply schemes, borewell casing schemes etc., and hence was expected to do well. Out of sanctioned loan of 39.50 lakhs the party availed Rs.37.67 lacs.

Subsequently, the company was also sanctioned a loan of Rs.3.06 lakhs on 30.3.90 for purchase of 125 KVA diesel generator set out of which party availed 2.46 lakhs. The company started its commercial production on 1.11.89. The particulars of loans sanctioned, disbursed, amount in arrears and outstanding before rescheduling are as under:

<table>
<thead>
<tr>
<th></th>
<th>A/c I</th>
<th>A/c II</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount sanctioned</td>
<td>Rs.39.50 lakhs</td>
<td>Rs. 3.06 lakhs</td>
</tr>
<tr>
<td>Disbursed</td>
<td>Rs.37.67 lakhs</td>
<td>Rs. 2.46 lakhs</td>
</tr>
<tr>
<td>Principal outstanding</td>
<td>Rs.31,47,351.08</td>
<td>Rs. 1,85,081.88</td>
</tr>
<tr>
<td>Principal arrears</td>
<td>Rs.15,00,216.08</td>
<td>Rs. 1,85,081.88</td>
</tr>
<tr>
<td>Interest arrears</td>
<td>Rs. 2,56,122.00</td>
<td>Rs. 22,680.00</td>
</tr>
</tbody>
</table>

REASONS FOR SICKNESS

The unit fell into arrears and became sick mainly due to the following reasons:

1. Though the company envisaged to market its product without any difficulty it had to face stiff competition with the existing companies. As a result the company could not dispose all of its stocks.
2. Steep increase in PVC resin price which is the main raw material for the product being manufactured by the company.

3. Delay in realising the payments from the dealers.

4. Shortage of working capital funds. Since the payments were not coming in time from the dealers company faced shortage of working capital as the production must be kept on. However, banker refused to enhance the working capital limits without getting in principle approval from State Financial Corporation regarding rephasing of principal outstanding.

5. Power cut and abnormal hike in power charges.

PROPOSAL OF THE COMPANY

In view of the problems being faced, the company requested for rescheduling the principal outstanding so that it can not only gain some much needed breathing time for stabilising the operations but also can approach the banker for enhancement of working capital limits to improve the profit position of the unit. Further, the company also proposed to expand upto 400mm dia PVC pipes and also add a new product line such as Fittings for Agriculture purpose and SWR fittings for apartments and individual houses. Presently these fittings are coming from Maharashtra and other northern states.

The negative aspect of the unit have been found to be the unforeseen expenditure by way of increase in the basic raw material price and competition from the big units. In order to prevent the unit from falling sick, keeping in view the good
track record of promoters and the ability of company to turn around, financial institution has resorted to the simplest revival method of rescheduling of principal outstanding without extending the loan period. The details are as under:

ORIGINAL SCHEDULE

A/c I: sanction amount of Rs.39.50 lakhs shall be payable in 13 half yearly instalments commencing from 28.03.1991. First instalment of Rs.2.90 lakhs and subsequent 12 instalment @ Rs.3.05 lakhs.

Repayment expires in March, 1997.

A/c II: The sanction amount of Rs.3.06 lakhs shall be payable in 10 half yearly instalments commencing from 21.5.1991 @ Rs.30,600/- each. Repayment expires in November, 1995.

REVISED SCHEDULE

A/c I: a) The principal arrears of Rs.1500216.08 shall be repayable in 18 monthly instalments excluding months in which interest payable commencing from 28.1.95 (February, May, August, and November). First 17 @ 0.83 lakhs and the last of Rs.89,216.08. Repayment expires in March, 1997.

b) The balance principal outstanding amount of Rs.16,47,135 shall be paid in 11 monthly instalments commencing from 28.12.95 excluding the months of February, May, August and November in which current interest is payable. First 10 @1.50 lakhs and last of Rs.1,47,135.00. Repayment expires in March, 1997.
A/cII: Company proposed to close this account and as such was not given a fresh schedule.

The above reschedulement has resulted in granting the much needed breathing time, gave a fresh lease of life and enabled the unit to turn around. It was subsequently found that with the improved power position, addition of new product the unit could generate sufficient profits, paid the total interest arrears as promised apart from closing DG Set Loan account and planning to expand. For instance the company improved its sales turnover from Rs.10.04 lakhs in 1989-90 to 291.50 lakhs during 1993-94. Further the company which incurred cash losses since beginning made a modest profit during 1992-93 & improved its position further during 1993-94.

ANALYSIS OF THE CASE

1. The unit was tending towards sickness due to
   a. heavy competition from the big units.
   b. steep rise in the prices of PVC resin, the main raw material.
   c. lack of sufficient working capital.

2. The strengths of the case are
   a. promoters are having rich experience in the similar line and are capable of putting the unit back on rails.
   b. with the addition of new product company could improve its profit position.
   c. with the inprinciple approval of State Financial Corporation for rephasing the loan bank came forward with enhanced working capital limits.
3. The relief extended by the corporation was rescheduling of principal without extending the loan period so that the unit gets enough breathing time to stabilise its operations.

4. With the breathing time granted by the corporation, enhanced working capital limits sanctioned by the bank company could improve its profit position and start meeting the commitments to the institutions. This is a classic case of how a financial institution and a commercial bank could come together to the rescue of the unit and prevent it from becoming sick. So where there is a will there is a way and if you perceive the problem rightly, diagnose it at right time and apply required correctives there is no reason why a unit can not turn around.

Case 2: SOLVING THE PROBLEMS OF A SICK UNIT THROUGH ONE TIME SETTLEMENT

The corporation has sanctioned a term loan of Rs.20.60 lakhs and seed capital (carrying nominal interest of 1%) of Rs.2.00 lakhs to Company Y for setting up a unit for manufacture of TV deflection component sets at the proposed electronics complex of APEL near Vijayawada in 1985. Out of the sanctioned loans party availed Rs. 20.04 lakhs and Rs.2.00 lakhs respectively.

Though the project was implemented successfully by the promoter directors the unit faced problems since inception.
Originally the electronics industrial estate was proposed by APEL to house a cluster of units but only this unit was set up by the promoters. Further M/s Philips India Limited, the electronics giant, proposed to establish its TV picture tube project at this electronic complex but somehow dropped the proposal at the last moment and instead established in Uttar Pradesh. So the much needed support/push which otherwise would have been available, through the establishment of backward and forward linkages, was deprived of to this unit. The company achieved commercial production in June, 1987.

When the unit was doing reasonably well suddenly the government decided to allow import of picture tube guns. Hence, the picture tube market and in turn all the TV component manufacturers were badly affected, throwing the entire production planning of the unit into out of gear. This position continued up to the middle of 1989. And to add to the difficulties all of sudden change in central excise policy and import policy took place resulting in increase in margin from 25% to 200%. As a result the imports of raw material had become costly which in turn affected the TV component manufacturers. In between some of the directors left the company throwing entire burden on the Technical Director who subsequently became Managing Director of the Company.

In view of the problems faced by the party Corporation considered rephasing of loan (i.e. reschedulement) and allowed rebates on interest with a view to revive the unit by reducing the debt burden. After availing the reschedulement
the Managing Director, who is technically qualified with rich experience in the line, tried to diversify into telecommunication coils and transformers. The unit could marginally improve the position. But unfortunately Department of Telecommunications (DOT) has not released any orders (promised ones) to the equipment manufacturers. Hence, marketing problem surfaced. The unit tried to salvage the situation by supplying its components to M/s Bush India Limited, Bombay and M/s Dyna Vision Limited, Madras. However, since both the factories were closed after supplying the components the much needed payments were not forthcoming. Since all the efforts made by the promoters, particularly the Managing Director who is well experienced in the line, to revive the unit failed the management approached the corporation with a request to grant one time settlement of loan account by paying 1,40,000/- as a token advance towards their commitment to close the loan account amicably so that they could reduce the liability and improve viability as servicing debt is becoming a big problem.

At the time of party’s request (as on 31.5.94) the account position was as under:

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>20,30,554.50</td>
</tr>
<tr>
<td>Interest as per NSR</td>
<td></td>
</tr>
<tr>
<td>upto (31.5.94)</td>
<td>19,52,627-00</td>
</tr>
<tr>
<td>Interest paid so far</td>
<td>(-) 14,07,236-20</td>
</tr>
<tr>
<td>Amount payable as per NSR</td>
<td>25,75,945-30</td>
</tr>
</tbody>
</table>
REASONS FOR SICKNESS

1. Though cluster of units were initially planned at the electronics complex none have come up except this. So, no supporting service was available.

2. Slump in the TV market with frequent changes in Government policies such as increase in LC margins, Excise duty etc.,

3. The main reason for the units sickness is marketing. Though the company could not reach the estimated turnover it could not dispose of whatever it could produce and even if where such sales took place payments were not realised.

4. The unit was also affected by cyclone.

5. The first Promoter Directors retired in the middle leaving the entire burden on Technical Director.

STRATEGY ADOPTED BY THE CORPORATION

In 1992 with a view to help the unit by reducing the debt burden (by way of charging penal interest) Corporation has rephased the principal outstanding and allowed rebates on interest. However, because of marketing and other related problems the company could not be revived. Since the interest outstanding was increasing by adding to the overall liability of the company and having failed in his attempts to revive the unit by diversifying etc., Managing Director requested the corporation to consider accepting one time payment of Rs. 14 lakhs and close the loan account as:
a) They are unable to service the loan.
b) They would like to reduce their liability for improving the liability by repaying the amount if necessary by raising unsecured loans from friends, relatives etc. Further, the company also proposed to raise the promised payment of Rs.14 lakhs, if the request agreed to, by selling the private lands of promoter directors.

When the first attempt by the corporation, by giving reschedulement, failed to revive the unit the corporation seized the unit and advertised for sale. But the offers received were too low as against the assets value of Rs.13.31 lakhs. Hence, the management of the corporation decided to constitute a committee for causing inspection of the unit, assess the situation and recommend on the party’s request.

The committee visited the estate where the unit is located and observed the following:

1. The water tank proposed by the estate authorities was given away to the panchayat for supplying water to the villagers.
2. The vacant site available in the estate is also surrendered to panchayat where coconut plantation is already taken up.
3. The Government’s APEL Complex Building is being used as training school for A.P.S.R.T.C Personnel.
4. The Promoter Director Sri Sivalinga Prasad left his job and started this unit to earn his bread and butter but miserably failed for want of marketing and other problems.
Keeping in view the above and the not much encouraging response to the sale offer compared to assets value, committee recommended to accept party’s payment of Rs.14 lakhs as full and final settlement of loan account. Accordingly the management accepted the same by writing off the principal balance and OE and waiving the interest balance as there is no scope for recovering more than what the party promised and paid.

ANALYSIS OF THE CASE

1. The unit suffered heavily due to the marketing problem.
2. The basic infrastructural facilities were missing from the estate where the unit was located.
3. Had the Indian Electronic Gaint (Philips) established its unit the much needed support would have been available to the unit through the establishment of backward and forward linkages.
4. The sudden withdrawal of two Promoter Directors left the unit in dolldrums and it took quite some time to the Technical Director, who subsequently took over as Managing Director, to gain control over the unit.
5. Change in Government policy also adversely affected the unit's performance.
6. Corporation was very reasonable in extending the reliefs. Having failed to revive and also keeping in view the genuine problems faced by the unit it did a good thing by accepting the one time settlement proposal so that funds unnecessarily would not get locked up and payment received can be used to finance some other industrial ventures.
So, State Government and other concerned authorities while inviting industries to the backward areas should simultaneously take steps to develop infrastructural facilities, the absence of which will throttle the functioning and consequently make the unit sick. In the instant case had there been adequate infrastructural facilities probably some other industries would have been established and supported this sick unit.

Case 3: REVIVAL THROUGH CHANGE OF MANAGEMENT

ABC Company was sanctioned a term loan of Rs49.93 lakhs ranking pari passu incharge with a term loan of Rs 40.36 lakhs from APIDC to set up a unit at Nandamuru village in Krishna District for the manufacture of straw boards with a capacity of 15 TPD. As per the original schedule, the unit was supposed to go in for commercial production in April 1984. Due to delay in the implementation of the project for over a period of 2 1/2 years, the unit went into commercial production only in Dec. 1986. The main reasons for delay were delay in supply of machinery by the supplier, delay in obtaining permission from PWD for taking water from Lazabanda drain. During 1987, the production of the project was once again affected due to delay in working capital sanction by the bank and power cut/interruptions and also due to closure of Lazabanda canal, which is the chief source of water to the company.

The damages caused to the company during the riots in December, 1988 and cyclone in May, 1990 deteriorated the
operations of the unit. The cash losses incurred by the company during the years 1987-88 and 1988-89 were in the order of Rs.8.58 lakhs and Rs.9.66 lakhs respectively. However, the company made a marginal cash profit of Rs.98,000/- during the year 1989-90. The accumulated losses of the company as on 30.9.1990 were to the extent of Rs.58.09 lakhs. M/s Andhra Pradesh Industrial Technical Consultancy Organisation (APITCO) undertook a detailed viability study of the unit, and suggested a rehabilitation package with certain energy conservation measures and enhancing the production from 15 to 20 TPD. With the proposed enhancement and improved capacity utilisation with the installation of energy conservation measures company was hopeful of turning the corner.

The company made a reference to BIFR under the sick industrial companies (special provisions) act 1985 seeking eligible reliefs. However, since the company made a cash profit of Rs.98,000/- BIFR observing that it's not meeting the requirement of sick industrial company, dismissed the case. At the BIFR meeting the representatives of the state level institutions agreed to extend necessary reliefs such as funding interest arrears, rescheduling the principal etc. Accordingly a consortium meeting was held and decision was taken to grant the necessary reliefs. Further bank also came forward to extend the need based working capital limits.

Accordingly the corporation sanctioned an additional term loan of Rs.30 lakhs ranking pari passu in charge with a term loan of Rs.34 lakhs from APIDC for expanding the Straw Board unit to improve the viability and to revive the unit. The
overall cost of the project worked out to Rs.247.08 lakhs as against the original cost of Rs.177.30 lakhs. However, the rehabilitation scheme could not be implemented fully due to lack of unity among the management which resulted in mismanagement of the unit. The particulars of amount sanctioned, outstanding are as under

<table>
<thead>
<tr>
<th>A/c</th>
<th>Sanctioned Rs.</th>
<th>Outstanding Rs.</th>
</tr>
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<tbody>
<tr>
<td>A/c-I</td>
<td>30,00,000</td>
<td>30,00,000</td>
</tr>
<tr>
<td>A/c-II</td>
<td>16,71,300</td>
<td>16,71,300</td>
</tr>
<tr>
<td>A/c-III</td>
<td>6,30,000</td>
<td>6,30,000</td>
</tr>
<tr>
<td>A/c-IV</td>
<td>30,00,000</td>
<td>6,46,630</td>
</tr>
</tbody>
</table>

The total outstanding of the company as on 30.7.93 stood at Rs.1.12 crores including the interest dues of Rs.51.72 lakhs. Since the company stopped its operations and was not meeting the commitments of the corporation the unit was seized and advertised for sale with an intention to put the assets to productive use apart from realising some amounts which can in turn be used for financing other industrial ventures. The value of the assets worked out to Rs.50.81 lakhs and offer received was of Rs.45 lakhs.

**REASONS FOR SICKNESS AND SALE OF THE UNIT U/S 29 OF SFC’S ACT**

1. The grounding of the project and commencement of commercial production were delayed due to delay in the supply of the machinery.
2. The production of the unit was also affected due to the damage caused by communal riots and the cyclone.

3. Due to the infighting among the directors the unit was abandoned and the machineries were lying idle. Since the unit was located just 5 Kms. from the sea the machinery was subjected to heavy corrosion.

4. Since the unit was located just 5 Kms. from the sea the machinery was subjected to heavy corrosion.

5. Though the institutions have come forward to extend the reliefs such as granting additional loans for enhancing the production capacity, other reliefs such as reschedulement of principal, funding of interest arrears the rehabilitation scheme could not be implemented in full due to infighting among the directors. Hence the unit became sick and beyond revival with the present management.

6. As against the targetted production of 15 TPD the company could touch hardly 10 TPD through out its four year period of operations.

Keeping in view the above and also with an intention to put the assets of the unit for productive use, financial institutions decided to change the management by advertising the unit for sale so that a suitable person could take over and run the unit. This action of institutions not only enables them to get back some of their amounts, which could be used for financing other industries, but also puts the assets for productive use lest the amounts may unnecessarily get locked up with the incapable management handling the affairs of the company.
SALE OF THE UNIT TO A NEW PROMOTER AND SUBSEQUENT PERFORMANCE

The sale of the unit was finalised in favour of XYZ Company for Rs.51 lakhs against the valuation of assets by the corporation engineers of Rs.50.81 lakhs. The product of the sick company was straw board and paddy straw is the main raw material which is abundantly available with in a radius of 15 Kms. Further the other raw material bagasse can be procured from a nearby Company. Though the earlier company had these advantages they could not capitalise on it due to mainly the infighting among the directors and consequent mismanagement of the unit.

The new promoters with their rich experience were not only getting production of 15 TPD, which the former unit could not through out its 4 year operations, but also plan to expand further. Presently the company is manufacturing the straw board and supplying the same to APSTC and its sister concern in Mysore. With their proposed plan of manufacturing duplex board they will be touching a turn over of Rs.10 crores per annum as against the present Rs.2.5 crores. Further, their profit margin also will improve from Rs.5000 per tonne to Rs.14000 per tonne. All that the company is required to do is invest another Rs.50 lakhs for making minor changes as the digestors are the same for straw board and duplex board. Company is meeting the obligations of the institutions and planning to approach for their expansion plans.
ANALYSIS OF THE CASE:

The main cause of sickness was infighting among the directors and consequent mismanagement of the unit. Added to this was the delays in machinery supply, damage caused due to the communal riots and cyclone also affected the performance of the unit. Though viability of the unit was established by a study of APITCO which suggested expanding the capacity and adopting certain energy conservation measures and financial institutions have come forward to extend necessary help by way of additional loan, funding of interest arrears and rephasing of principal outstanding, the rehabilitation scheme could not be implemented due to the infighting among the directors.

Since the present management was not capable of putting the unit back on the rails, despite institutions coming forward to help, the institutions have taken the right step of selling the unit to a more capable promoter directors who not only could put the assets for productive use but also are meeting the repayment obligations there by helping the institutions in furthering the cause of industrialisation through recycling of funds received. With their good track record and solid plans of expansion by adding duplex board to their product range, which involves minor changes in the machinery, company is expected to do further well.
Case 4:

CASE WHERE LACK OF REQUISITE BUSINESS EXPERIENCE ON THE PART OF ENTREPRENEUR MADE THE UNIT SICK THOUGH THE TECHNOLOGY INVOLVED IS SIMPLE.

The Company Z was sanctioned a term loan of Rs.29.2 lakhs on 27.4.94 to set up a raw and para-boiled rice mill at Atkur, Gannavaram. The cost of the project was estimated at Rs.60.31 lakhs and it was assumed that the unit will go into production by December 1984. However, there was abnormal delay in implementation due to the following reasons:

1. The unit could not get the power connection due to the objections raised by the R&D department as the power lines were crossing the national highway.
2. Delay in completion of legal formalities.
3. Heavy over runs in the cost of project.

The delay in implementation of the project resulted in over runs and the revised project cost was estimated at Rs.73.72 lakhs out of which over runs were of the order of 22.23%. The corporation keeping in view the delay in implementation rescheduled the principal instalments apart from granting an additional term loan of Rs.9.50 lakhs. The Debt Service Coverage Ratio for 8 years worked out 2.36 times and was satisfactory. The term loans sanctioned were not only for the machinery but also to the land and buildings.

After availing Rs.38.5 lakhs from the corporation company implemented the scheme in December 1986. The commercial
production commenced in February 1987 and 870 MTS of para boiled rice was produced which was given to FCI by way of levy. Due to the uneconomical prices of FCI company has incurred heavy losses. While the prices offered by the FCI and the civil supplies department were far less for the par boiled rice compared to raw rice, the cost of raw material for both is the same. Further the processing charge for para boiled rice is more compared to raw rice. Hence it will be more economical for any business man to give levy of raw rice to FCI and civil supplies department and sell para boiled rice in the open market.

The profitability of rice mills is closely linked to the policies of state government. Originally setting up of a para boiled rice mill was economically feasible but in the changed circumstances it has become uneconomical. Hence, the company proposed to acquire a 4 MT raw rice milling machinery to make the whole unit viable because raw rice can be given to FCI and civil supplies department and para boiled rice can be exported to other states at a remunerative price. Accordingly the corporation sanctioned another additional term loan of Rs.5 lakhs to set up a 4 MT raw rice milling plant at the existing 4 MT para boiled rice mill site. The working capital limits to the unit were sanctioned by Syndicate Bank.

After availing the second additional loan also party could not run the unit on sound lines and fell into huge arrears. Though the unit requested for extending the cyclone rehabilitation scheme, as the unit was affected by the 1990
cyclone, the damage caused was estimated to be negligible i.e. 62,000/- and hence was turned down. In view of the several defaults committed by the unit in its repayments to the corporation, despite giving all the necessary support it was decided to seize the unit and advertise it for sale. Accordingly the unit was seized on 24.2.91 and at the time of seizure the total outstanding in the loan account was around Rs.98.96 lakhs of which interest alone accounted for Rs.52 lakhs.

REASONS FOR SICKNESS

1. Delay in getting the power connection.
2. Even after getting the power connection frequent power cuts affected the performance of the unit.
3. Delay in completing the legal formalities.
4. Delay in implementation of the project resulted in cost and time over runs.
5. Lack of relative back ground on the part of promoters.

ANALYSIS OF THE CASE

The corporation was quite liberal in its approach towards this unit so as to make it viable. When the company approached for the first additional term loan in view of the over runs in the project cost corporation was very prompt in sanctioning the same. However even after availing this additional loan the promoters could not run the unit on commercial lines and represented for another term loan for adding a 4 MT raw rice milling unit so as to take advantage of the levy policy of the government. Because while the raw material for both para
boiled and raw rice is the same, processing charges for the para boiled are more than the raw rice. Company proposed to give raw rice as levy and make good profit by exporting the para boiled rice. However, heretoo the company failed totally as the company could not even meet the levy quota and was issued a notice by the concerned department for non-compliance. Apart from granting time and additional loans as and when approached corporation also helped the unit in getting the enhanced working capital limits from the bank.

But since the promoters were not capable of running the unit they made it sick and the corporation had no other go except to seize and advertise it for sale. This is borne out by the fact that other para boiled and rice mills were doing extremely well, while this unit could not. Moreover, the technology involved is very simple. However, it is not to say that unit did not face any problem such as power problem, adverse market conditions, etc. But these problems were confronted by not only this but other units as well. Cleverness lies in adjusting and adopting to the market conditions and reaping the benefit. But the promoters utterly failed in rising to the occasion.

Hence, the decision of the corporation in seizing the unit was right because there was no other go as all the attempts made to revive the unit have not met with any success. Perhaps there is a lesson or two to learn from this unit’s experience i.e., financial institutions while appraising the project should not only look at the technical feasibility and
economic viability of the project but also should attempt to appraise the entrepreneur while sanctioning the term loans. Because for success of the project the man behind the project is no less important than the economic viability and technical feasibility. In fact even if the project is good but the person behind it is not capable the project is bound to become sick not only throwing out workers out of their employment but also blocking the funds of financial institutions without any productive use.

Case 5:

CASE WHERE MIS-MANAGEMENT MADE THE UNIT SICK

The company PQR was sanctioned a term loan of Rs.60.00 lakhs in January 1988 ranking pari-passu in charge with term loans of Rs.90.00 lakhs from APIDC and Rs.8.15 lakhs from a commercial bank for setting up a unit for a manufacturing of granite panels and monuments at Sitarampuram village, Nuzvid Mandal, Krishna District. The cost of the project was Rs.237.22 lakhs including working capital margin of Rs.10.75 lakhs.

Background Of Promoters

One of the promoter Director was a Doctorate in mathematics and was associated with a granite trading company. As a partner and looking after marketing, accounts, etc., she gained experience in marketing and exporting granite and accordingly envisaged this project. The other key promoter was a civil contractor and gained considerable skill in dealing with labour etc.
Proposal

The company proposed manufacture of granite cutting, polishing and monuments. Further, with the demand for polished granite slabs and monuments growing year by year the company was expected to do well. Out of the said term loan of the corporation the company availed Rs.59.03 lakhs. Subsequently the company was also sanctioned Rs.8.69 lakhs in May 1995 for acquiring a DG set to tide over the power problem. Further, A.P. Industrial Development Corporation also sanctioned an additional term loan of Rs.43.15 lakhs which includes overdue instalments of Rs.34.00 lakhs.

Problems faced

In the original scheme there was a provision for imported polishing machine but company did not import the same as there was a delay in implementation of the project. Further company spent more money on civil works then the provision made in the original scheme. The working results of the company were as under:

<table>
<thead>
<tr>
<th>Rs. in lakhs</th>
<th>Turnover</th>
<th>Net profit/loss</th>
<th>Depreciation</th>
<th>Cash profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>31.96</td>
<td>-10.08</td>
<td>14.67</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>.48</td>
<td>-59.21</td>
<td>13.19</td>
<td>-46.02</td>
</tr>
<tr>
<td>1991-92</td>
<td>3.51</td>
<td>-76.17</td>
<td>13.76</td>
<td>-62.41</td>
</tr>
<tr>
<td>1992-93</td>
<td>6.08</td>
<td>-30.37</td>
<td>24.34</td>
<td>-6.03</td>
</tr>
</tbody>
</table>
Since the unit was not functioning properly and generating expected return a consortium meeting was called in 1992 where in it was decided as under:

1. The Managing Director to sort out issues with the banker.
2. In principle acceptance for induction of two more directors of co-promoter company.
3. Additional loans for the balancing equipment by the Financial Institutions apart from funding the interest arrears and rescheduling the principal.

With the induction of directors belonging to co-promoter company the unit was expected to do well as the group is having experience in granite trade abroad and would be pumping required money for revival of the unit. Accordingly the corporation too funded the interest arrears and rescheduled the principal outstanding in line with others. However, despite the several reliefs and back up support by Financial Institutions the company could make a turn over of Rs.6.08 lakhs only for the year 30.1.93 as against the expected turn over of Rs.264.41 lakhs. The banker was not at all happy with the operations of the company as their outstanding rose to Rs.18.00 lakhs. Further, though the Managing Director of the company claimed to have quarries in Andhra Pradesh and Karnataka could not submit the copies of quarry lease and there were discrepancies in the stock statements submitted by the company to the bank. The two promoters from the co-promoter company time and again have complained about the gross mis-management in conducting the affairs of the unit by the Managing Director. Some of them are:
Enticing them to join as co-promoters by misrepresenting the facts.

No official receipt for the customs duty for the shaping machine amounting to Rs.7.11 lakhs and non-arrival of machinery.

Machines accounted for in the books are not available in the factory.

Disposal of consumables without accounting the same in the books of accounts.

Wide discrepancies in raw material/finished goods, stock statements etc., submitted to Bank.

The arrears went on piling up and by January 1994 State Financial Corporation dues were alone to the tune of Rs.82.16 lakhs. In view of the several defaults committed by the unit in the repayments to the financial institutions, despite granting several reliefs for its revival, the unit was finally seized in June 1994 and advertised for sale.

ANALYSIS OF THE CASE

The company was sanctioned various concessions, reliefs (i.e., funding of interest arrears, freezing of penal interest, rescheduling of principal outstandings in the loan accounts) as per the consortium decisions. As against the expected turnover of Rs.264.41 lakhs for the year ending 31.3.93 the actual turn over was only Rs.6.08 lakhs. Infact the operations of the unit were never satisfactory and the banker, M/s New Bank of India, expressed dissatisfaction over the affairs of the
unit. Further, the company was running negative capital margin of Rs.3.50 lakhs in addition to the defaults in Bank’s working capital account. The company incurred cash losses. For instance the gross loss upto 31.3.93 was Rs.202.99 lakhs including Rs.65.97 lakhs provided for depreciation. Therefore, the total cash loss incurred by the company is Rs.137.02 lakhs. The equipment imported such as shaping machine were not lifted though customs duty’s stated to have been paid thus depriving the company of this useful machine. Books of Accounts are not properly drawn as per the observations of officers who inspected the unit. While the induction of new directors from the co-promoter company, with its rich expertise of exporting granites blocs etc., was expected to add to the strength of unit and consequent improvement in the functioning of unit the reality was something else i.e., strained relations, allegations and counter allegations etc. So when we take an overall view of the affairs of the unit, it’s clear that the Managing Director tried to run the unit as per her whims and fancies without taking other directors into confidence and ultimately made the unit sick. So here is one more case for financial institutions to learn that, apart from the economic viability and technical feasibility of the project the person behind the project is also important. And continuous monitoring should be done to trace the symptoms of sickness, so that financial institutions are not taken for a ride and necessary correctives are applied in time for preserving their interests.

Hence, they should develop suitable appraisal techniques,
which they haven’t so far or even if they not satisfactory, for appraising the key promoters as their style of functioning has a crucial bearing on the success or failure of company. Further, regular post disbursement monitoring should be done to see that unit is progressing well as planned for.

CASE 6:

CASE WHERE UNIT BECAME SICK FOR WANT OF WORKING CAPITAL

MNO company was sanctioned a term loan of Rs.22.40 lakhs in December 1984 for setting up a unit at Mullapadu village for manufacturing granite strips required for roads and buildings. None of the promoter directors had any relative experience. The company has faced continuous financial problems right from its inception to implement the project as there were overruns. There were pressing liabilities from creditors for fixed assets whose bills were not settled. Further, even the working capital margin was diverted to the fixed assets and the promoters could not run the unit effectively. Though the unit has gone into production in January, 87 could not run continuously due to power cut.

Additional loan to avoid incipient sickness

The company approached for additional term loan to repay the creditors for fixed assets and working capital margin as the existing working capital margin was diverted for fixed assets. Further company proposed to acquire 2 tata diesel tippers as the company is paying transporters very high charges for transportation of raw materials. The revised cost of the scheme and means of finance were as under:
COST OF THE SCHEME

<table>
<thead>
<tr>
<th></th>
<th>Rs. in lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Original</td>
</tr>
<tr>
<td>Land and buildings</td>
<td>5.77</td>
</tr>
<tr>
<td>plant and machinery</td>
<td>22.58</td>
</tr>
<tr>
<td>erection</td>
<td>0.50</td>
</tr>
<tr>
<td>tippers</td>
<td>-</td>
</tr>
<tr>
<td>others</td>
<td>0.85</td>
</tr>
<tr>
<td>Prel.and pre-op expenses</td>
<td>2.00</td>
</tr>
<tr>
<td>working capital margin</td>
<td>2.20</td>
</tr>
<tr>
<td></td>
<td>33.90</td>
</tr>
</tbody>
</table>

Means of finance

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>11.50</td>
</tr>
<tr>
<td>Spl. capital</td>
<td>-</td>
</tr>
<tr>
<td>APSFC term loan</td>
<td>22.40</td>
</tr>
<tr>
<td>Unsecured loans</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>33.90</td>
</tr>
</tbody>
</table>

The debt equity ratio worked out to 2.26:1 as against the standard norms of 2:1. Accordingly the term loan was reduced to Rs.7.50 lakhs as against Rs.10.00 lakhs and the promoters were advised to match the difference. Accordingly the DER worked out to 2.08:1 which is quite satisfactory. Detailed appraisal was not taken up as there is no increase in the capacity and change in the product mix.

Further, the unit was also sanctioned special capital assistance of Rs.2.00 lakhs. Out of the said loans the unit in total availed Rs.28.36 lakhs of term loan and Rs.2.00 lakhs
special capital. From the beginning unit could not run satisfactorily and after working for a while stopped functioning. Moreover the company was never regular in its repayments to the corporation. As such the unit was seized on 21.8.89 and the assets were advertised for sale. First the tippers were sold and subsequently other assets. However, while proceeding under revenue recovery act for recovering the balance it was found that there are no immovable properties in the names of the remaining directors (one director was assasinated during riots). Hence the corporation is considering the proposal of writing off the balance principal outstanding and waiving off interest outstanding after adjusting the sale proceeds.

ANALYSIS OF THE CASE

The main weakness of the project was diversion of working capital margin for financing fixed assets and raising of unsecured loans with exorbitant rates of interest for meeting additonal cost of fixed assets. Other factors which contributed to the sickness were lack of experience of promoter directors and delay in implementation of the project which resulted in cost overruns. Further, the power problem also added to the difficulties of the unit. Another weakness of the project was diversion of working capital margin for financing fixed assets and raising of unsecured loans with exorbitant rates of interest for meeting additional cost of fixed assets. The corporation tried to come to the rescue of the unit by granting additional loan for repaying the creditors of fixed assets so that company could improve its viability by reducing its liability. However,
lack of working capital affected the functioning of the unit. Because the unit's operations virtually came to stand still with the diversion of working capital margin to finance fixed assets and banks' refusal to enhance the limits.

So for successful functioning of a unit mere viability and feasibility won't suffice. Adequate working capital and capable entrepreneur too are must. Had any commercial bank come forward to extend need based working capital margins the unit would not have become sick. This confirms the generally held notion that lack of working capital is one of the main causes of sickness.

CASE 7:
REVIVAL OF THE UNIT ON THE VERGE OF SICKNESS THROUGH DIVERSIFICATION

MNO has acquired the assets of a sick company under sec.29 for a consideration of Rs.26.00 lakhs on 13.11.87. The company paid an initial down payment of Rs.5.20 lakhs and the balance of Rs.20.80 lakhs was treated as term loan.

BACK GROUND OF PROMOTERS

The Managing Director of the company was Managing Director of a reputed and well known chitfund company and the other director is a graduate in Business Administration. Further, the working results of the units in which the directors were interested were quite satisfactory i.e., all of them were earning profits.
Problems faced and subsequent coming out of the same:

The company acquired the sick unit with an intention to revive the unit. Despite the company’s best efforts to get the machinery rectified, the company could not succeed and hence decided to dispose of the machinery. In view of this, the company contemplated diversification into cold farming sections and approached the corporation for financial assistance. Financial position of the company as on 31.7.88 was as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Buildings</td>
<td>12.16 Lakhs</td>
</tr>
<tr>
<td>Plant and Machinery</td>
<td>19.77 &quot;</td>
</tr>
<tr>
<td>Deposits</td>
<td>0.60 &quot;</td>
</tr>
<tr>
<td>Preliminary and preoperative exp.</td>
<td>3.29 &quot;</td>
</tr>
<tr>
<td>Working capital margin</td>
<td>1.74 &quot;</td>
</tr>
<tr>
<td>Capital</td>
<td>24.76 Lakhs</td>
</tr>
<tr>
<td>term loan from APSFC</td>
<td>20.80 &quot;</td>
</tr>
<tr>
<td></td>
<td>37.56 Lakhs</td>
</tr>
</tbody>
</table>

Scope of the project:

The company proposed to manufacture door, window frames. Further, the company proposed to manufacture them through cold roll farming process and some of its advantages are:

- high strength to weight ratio
- light weight and ready to use
good and unmarred surface finish
wide material choice (steel, stainless aluminium, high strength low alloys etc.)

The main raw materials required for the unit are steel strips, aluminium strips, hot rolled and cold rolled coils etc. They are available from M/s. SAIL, M/s Model Steels Pvt. Ltd., Vijayawada and other re-rolling mills in the state. Since one of the supplier is the sister concern, no problem is envisaged for procuring required raw materials. Further, the promoters are already running a unit with good dealer network and they proposed to market these products also with the same network.

The total cost of the project worked out to Rs. 52.05 lakhs including working capital margin of Rs. 12.60 lakhs. The details of cost of the scheme and means of finance are as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rs. in lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and Building</td>
<td>8.66</td>
</tr>
<tr>
<td>Plant and Machinery</td>
<td>23.06</td>
</tr>
<tr>
<td>Erection</td>
<td>0.50</td>
</tr>
<tr>
<td>Others</td>
<td>1.04</td>
</tr>
<tr>
<td>Prel. preop. exp.</td>
<td>6.19</td>
</tr>
<tr>
<td>Working Capital margin</td>
<td>12.60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52.05</strong></td>
</tr>
<tr>
<td>Capital</td>
<td>24.76</td>
</tr>
<tr>
<td>Loans from SFC</td>
<td></td>
</tr>
<tr>
<td>I.</td>
<td>4.80</td>
</tr>
<tr>
<td>II.</td>
<td>16.50</td>
</tr>
<tr>
<td>Unsecured Loans</td>
<td>5.98</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52.05</strong></td>
</tr>
</tbody>
</table>
The debt equity ratio worked out to 1.10:1 and quite satisfactory. Though company had a balance outstanding of Rs20.80 lakhs in the first loan in the means of finance it was shown as Rs.4.80 lakhs as company planned to dispose of excess land and make payment of Rs.16.00 lakhs to the corporation for which corporation too agreed. Further, the unit was expected to break-even at 37% of its installed capacity. Subsequent to the availing of loan unit could do extremely well and planning to close the loan account too.

ANALYSIS OF THE CASE

The promoter directors are having rich experience of managing couple of units and all of them are doing extremely well. They took over a sick unit with the aim of reviving it. Having failed to do so they diversified the product with following advantages at their disposal:

- one of their concern can supply required raw material.
- the proposed products have the advantage of being cost effective.
- their existing dealer network is enough to market proposed products. Hence no additional marketing overheads etc.

Further, with their excellent track record did not had any problem in availing required working capital from the bank. Moreover they can pump in their own funds too as their other concerns are doing very well. Had they not diversified in time there by averting the incipient sickness the unit would have added to the list of sick units of the corporation defeating the
very purpose for which the promoters took over the unit i.e.,
reviving a sick unit bought under section 29 of SFC's act.

The experience of the unit shows that if the management
of the unit timely takes remedial steps with adequate and
timely support from the financial institutions definitely sickness
to a large extent can be averted if not avoiding completely.