CHAPTER - IX

MAIN FINDINGS, CONCLUSIONS AND RECOMMENDATIONS:

Small Scale sector has an active role in generating and providing employment opportunities at lower cost, establishing wide entrepreneurial base, dispersal of industries in rural/backward areas, reduction of disparities, equitable distribution of National Income and wealth and promotion of ancillarisation though symbiotic integration and organic linkages with large industries so as to contribute to overall industrial growth.

The available statistics on the growth of small scale industries in India show that the small-scale sector has been continuously growing and this development of small-scale sector could be attributed to the policy of Central and State Governments to offer financial and non-financial incentives for its growth in industrially backward areas. Along with the growth of small-scale sector the incidence of sickness has also been growing and that is posing a serious threat to the national economy.

Sickness in an industry, like human sickness, requires nursing if not hospitalisation. Therefore it is necessary not only to device suitable means for dealing effectively with sick industrial units but also to setup suitable arrangements for monitoring and detecting industrial sickness at an early or incipient stage. Averting sickness and rehabilitating those
who have become sick among SSI units is as much important as encouraging new ones if we want to avoid blockade of scarce but useful recources and to add to the Gross National Product.

The failure by a unit in repayment of principal instalments and interest (as & when falls due) has been assumed to be synonymous with its sickness by some while others have defined industrial sickness in terms of the utilisation of capacity, generation of internal surpluses etc., A review of definitions brings out the following characteristics of sick units:

- Failure to meet financial commitments.
- Erosion of capital & resources to the extent of 50% or more.
- Lower capacity utilisation.
- Acute working capital problem etc.

Findings:

1. While there is a growth in the no. of small-scale industrial units the incidence of sickness has also been growing simultaneously thus posing a serious threat to the developmental efforts.
2. The available studies at national and regional level were primarily statistical in nature and have failed to capture the process of sickness and the factors causing sickness which are outside the frame work of economic development.
3. Krishna District is industrially fairly developed and occupies second place in medium industries next to Hyderabad.

4. The magnitude of sickness has been on the rise over the years. While it is important to rehabilitate the units falling sick it's also equally important to avert sickness among small-scale industrial units.

5. Lack of co-operation and fruitful co-ordination among the different institutions (be it a banker, A.P.S.F.C or any other one) involved either in averting sickness or rehabilitating sickness.

6. When the institutions come forward and extend both monitory and technical assistance small industries will not only overcome the symptoms of incipient sickness but also would be able to turn around.

7. Majority of the entrepreneurs prefer to setup their ventures either in urban or semi-urban areas and hence there is a need to develop infrastructure and other related services in rural areas so as to motivate people for setting up industries there with a view to achieve balanced regional development.

8. Very few people among the sample got motivated to setup industries because of technical expertise which is not a healthy sign. We should do everything to encourage them for setting up industrial ventures as it is not practically possible to provide gainful employment to each and everyone. If we could atleast encourage
technocrats to go for self employment ventures (where by they will also provide employment to others) this will not only ease pressure on other avenues of creating gainful employment but also helps in harnessing skilled manpower for country's economic development.

9. Nearly 50% of the sample units faced working capital problems. Though necessary instructions have been issued by RBI, in lieu of Nayak Committees recommendations, to the public sector banks much more needs to be done.

According to latest analysis the SSI secor as a whole received just 15.29 per cent of the total bank credit at the end of March, 1995, marginally less from the 15.30 per cent received at the end of March, 1994, as the following data shows:

Credit to SSI Sector from Public Sector Banks

(Rs. in crores)

<table>
<thead>
<tr>
<th>March'92</th>
<th>March'93</th>
<th>March'94</th>
<th>March'95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Bank Credit</td>
<td>1,12,160</td>
<td>1,32,782</td>
<td>1,40,914</td>
</tr>
<tr>
<td>Credit to SSI</td>
<td>17,398</td>
<td>19,388</td>
<td>21,561</td>
</tr>
<tr>
<td>SSI credit as % of</td>
<td>15.51</td>
<td>14.60</td>
<td>15.30</td>
</tr>
</tbody>
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Source: COSIDICI COURIER, Vol. XVIII, January-February,
Marketing too is crucial variable affecting the fortunes of a unit. An analysis of units doing well shows that majority of them could avert the sickness by resorting to aggressive marketing.

11. Majority of the entrepreneurs questioned are of the view that APSFC did its best in either averting sickness or nursing the sick units back to health but due to certain factors beyond its control such as lack of sufficient infrastructural facilities is not able to mitigate the problem totally.

12. When the banker and financial institutions (term lending as well as working capital provider) come together to revive the unit from the jaws of sickness there is no reason why a unit can not turn around.

13. Lack of infrastructural facilities will throttle the functioning and consequently make the unit sick.

14. Financial institutions while appraising the project should not only look at the economic viability and technical feasibility but also should appraise man/woman behind the project as this factor is no less important than the other ones.

15. 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.
RECOMMENDATIONS:

1. The A.P.S.F.C., the Andhra Pradesh Small-Scale Industrial Development Corporation and the Department of Industries should maintain a close co-ordination among themselves and between them and commercial banks so that they can closely monitor sickness in industry and undertake a systematic programme of rehabilitation.

2. The Government of India and the Reserve Bank of India should be requested to direct commercial banks to provide information on sickness to District Industries Centres, Industries Department and State Financial Institutions, namely the Andhra Pradesh Small-Scale Industrial Corporation and the Andhra Pradesh State Financial Corporation, so that appropriate action can be taken.

3. A systematic study may be undertaken by the Andhra Pradesh Small-Scale Industrial Corporation and the Andhra Pradesh State Financial Corporation of the sick units in their portfolio so that they could prepare rehabilitation schemes on their own or through consultants, the Andhra Pradesh Industrial Technical Consultancy Organisation as advised by the Industrial Development Bank of India.

4. Sick units must be exempted from the relevant laws to sell surplus land, if required, to raise adequate funds for rehabilitation.
5. Sick units in SSI sector are to be given special attention under RSR scheme for assistance at a concessional rate of interest.

6. The viability study of the unit should be carried out and as far as possible, decision taken on rehabilitation within a period of 3 months from the date of receipt of complete information on all the relevant aspects from the management of the unit.

7. Need-based working capital should be sanctioned for the unit to enable it to carry on its operations, with interest at the minimum of the prescribed interest rates during the rehabilitation period.

8. Payment of past dues to the State Government or other agencies such as arrears of sales tax and electricity charges may be permitted to be made over a period of 5 years without interest or penalty.

9. Preferential treatment should be given to sick industrial units in respect of government purchases. Exemptions from power cuts should be granted to sick units.

10. The Association of Small Industrialists in every Industrial Estate should open a cell to advise prospective entrepreneurs on the procedures and formalities to be completed and the proper agency to be approached for information and/or assistance.

11. After taking a decision to rehabilitate a unit, the programme should be finalised quickly and the
implementation should also be speedy. A delay may aggravate the position and revival may become a distant goal. A piecemeal implementation of the programme may jeopardize efforts to rehabilitate the unit since the unit may not be able to operate above the break-even point till need-based funds are released in full. The unit may continue incurring cash losses and additional working funds may also be wiped out to meet such losses.

12. A close monitoring of the rehabilitated unit is essential, because many a time decisions may have to be revised if conditions change.

13. In order to ensure that sickness is arrested at the incipient stage, bank/financial institutions should periodically review the accounts of small-scale industries/borrowers to identify units which are becoming sick or are prone to sickness.

14. Viability on a commercial basis as defined below should be the main criterion for undertaking the rehabilitation of a sick small-scale industrial unit:

A unit may be regarded as viable if it would be in a position, after implementing a relief package spread over a period not exceeding 5 years from the commencement of the package from banks, financial institutions, Government (Central/State) and other concerned agencies, as may be necessary, continue to service its repayment obligations as agreed upon, including those forming part of the package, without the help of the concessions after
the aforesaid period. The repayment period for restructured debts should not exceed 7 years from the date of implementation of the package.

15. Wherever sickness is due to lack of power and raw materials etc., banks and financial institutions should refer such cases to state level Corporations/Committees for doing the needful.

16. Government and other agencies must help in marketing the products of SSI units.

17. Government and other financial institutions involved in purchase of the products of small units shall settle the dues to SSI units on priority. Further, Small Industries Development Bank of India or any other bank shall introduce factoring service (factoring is buying of the trade debts by a bank or any other agency of a manufacturer assuming the task of debt collection and accepting the credit risk, thus providing the manufacturer with working capital) for the benefit of small scale industrial units.

18. State Government and District Industries Department authorities may assist sick small scale units in the form of ensuring preferential treatment in respect of power supply, timely supply of raw materials, exemption and concessions in the rate of salejs tax, speedier redressal of any labour disputes, providing adequate market support etc.

19. 20% of the peak production in accordance with the Nayak Committee recommendations, should be taken
for assessing working capital requirement along with a joint appraisal by SFC & bank.

20. Appraisal and Screening (with emphasis on man behind the project) of proposed SSI units be made more stringent in a bid to check the growing incidence of sickness.


22. Strengthening the Andhra Pradesh Small Units Products Marketing Limited (A public limited company) established by entrepreneurs to assist small scale industries in product development and marketing.

23. Setting up a small scale industries development board at the state level to examine the problems of SSI units, to find out solutions and to suggest for developing SSI units.

24. Announcing a separate package of relief and concessions to revive sick industrial units in the state such as:
   - Permission to sell excess land.
   - Reschedulement of arrears and waiver of interest or penalty in respect of power tariff and sales tax.

25. A single agency akin to the Board for Industrial and Financial Reconstruction (BIFR), which is entrusted with the job of reviving sick industrial units in the Medium and large sectors, can be set up for SSI units to determine a unit sick. Another agency on the lines of the Industrial Reconstruction Bank of India (IRBI) can suggest an appropriate relief package for such units. These BIFR & IRBI types of organisations to be manned by officers with experience in state and central government organisations,
banks and financial institutions, should be given sufficient autonomy to grant reliefs or concessions directly, while still operating within the policy parameters of the central and state governments.

SSI sector has great potential for employment generation and earning precious foreign exchange for the country. Shortage of finance and marketing problems are the most prominent difficulties of these units. As we all know sickness is synonymous with the small sector in India and if this malaise is to be tackled all the concerned should join hands together.

“Small is beautiful.” But small must also be beautiful. While A.P.S.F.C. is doing its best in this direction, government in particular and other agencies in general must take massive steps to upgrade the technology apart from providing necessary marketing support, so that they are able to compete with larger units. In addition to this some of the suggestions made above merit serious consideration if small is not only beautiful but also must look beautiful.