CHAPTER 7

CONCLUSION

7.1 Introduction

Business failure is synonymous with industrial sickness. It is the result of rapid industrialisation and has been a major deterrent to industrial growth universally. Industrial sickness arises due to a multitude of factors both external and internal to the firm. The major external factors include inadequate credit facilities, unfavourable investment climate, shortage of raw materials and power, restrictions on imports, labour problems, market recession, global competition, obsolete technology, heavy taxation and government policies. The internal causes of sickness arise due to anomalies in the various functional areas such as finance, production, marketing and personnel.

Industrial sickness is a cause for concern though it is bound to exist in every economic structure. For a healthy economy the loss by way of non-productive assets and capital sunk in sick industrial units must necessarily remain within sustainable limits. Developed economies with their well-developed social security system are equipped to combat industrial sickness in a better way. But closure of industrial units in developing economies lead to serious consequences since their limited investment resources and relatively limited alternative
employment opportunities cannot easily absorb resultant loss of jobs, production and revenue.

Industrial sickness in India was first noticed in the early sixties and it has been growing at an alarming rate since then. In the sixties, the Government perceived industrial sickness as a threat to the employment of labour and introduced the policy of taking over the closed units. It worked well since the number of units closed down was relatively low. The depressed and recessionary conditions experienced by the country in the late sixties left a large number of industrial units sick. Rehabilitation was the remedy considered appropriate to combat the problem of industrial units, which have already become sick and were on the verge of collapse. This led to the establishment of the Industrial Reconstruction Corporation of India (IRCI) in 1971 as the principal reconstruction agency in the country. But the number of industrial units falling prey to industrial sickness continued unabated.

The growing incidence of industrial sickness in the country at an alarming rate forced the Government of India to make drastic changes in its rehabilitation policies. Various policy measures for the rehabilitation of sick industrial units like Soft Loan Scheme, Merger Policy -1977, Policy Guidelines on Sick Industrial Units-1978, Policy Statement-1980, New Strategy-1981 etc., were initiated. The Industrial Reconstruction Bank of India (IRBI) was set up in 1985 by reconstituting the erstwhile IRCI to function as the principal credit and reconstruction agency for industrial rehabilitation in the country.

In spite of the remedial measures initiated by the Government of India and the RBI the number of industrial units falling prey to the malady of industrial sickness every year has been increasing at a steady rate. A multiplicity of laws and agencies made the adaptation of a coordinated approach for dealing with sick industrial companies difficult. A need has therefore been felt in public interest to
seek an alternative legal route for the revival and rehabilitation of sick units or liquidation of companies. This led to the enactment of the Sick Industrial Companies (Special Provisions) Act, 1985.

The Board for Industrial and Financial Reconstruction (BIFR) was set up under the Act to determine the incidence of sickness in industrial companies and devise suitable remedial measures through appropriate schemes or other proposals and for proper implementation thereof. In the process of rehabilitation the Board can change management, order transfer of ownership at prices fixed by it, order financial restructuring, impose on promoters the quantum of funds that they should bring in and determine changes in management structure.

Up to 31-07-2000 the BIFR had registered 3110 cases and among them only 277 companies came out of the purview of the BIFR after making their networth positive. This shows that the success rate was only 8.9 percent of the total number of cases registered by the BIFR. The Board rejected 1532 references (recommended winding up in 960 cases and 572 references were dismissed non-maintainable). Nearly 28 percent of the total references (870 companies) remained at the preliminary stage of enquiry. The Board identified 708 sick units as viable and sanctioned rehabilitation schemes for them.

The present study was conducted with the objective of evaluating the performance of companies which implemented the rehabilitation schemes of the BIFR, the rate of success in rehabilitation schemes, the performance of Operating Agencies, the impact of different variables in the rate of success of the rehabilitation schemes and examining the inherent weaknesses if any, in the functioning of the BIFR.

A preliminary study was conducted by taking 203 companies from the 1855 companies for which Operating Agencies were appointed by the BIFR (as on 31-07-00). Data from 185 companies were collected by sending questionnaires
and data in respect of 18 companies wound up after the failure of the rehabilitation schemes were collected from the BIFR and the Stock Exchange. Detailed analyses of the performance of the companies were made in the case of 40 companies and case studies were conducted in respect of eight companies in Kerala state.

The major findings of the study are summarised in the following heads.

7.2 Findings
7.2.1 Status of Companies Reported to the BIFR

Out of the 3110 references registered, only 8.9 percent cases came out of the purview of the BIFR after making their networth positive. Operating Agencies were appointed in 1855 cases and among them only 205 companies were declared no longer sick, the success rate being 11 percent. This shows that in spite of the active support of the Operating Agencies the increase in success rate is only marginal.

The success and rejection rates varied among different Operating Agencies. Among the different operating Agencies, the Industrial Credit and Investment Corporation of India Ltd., topped in the success rate (19.8 percent) followed by Banks and State Financial Corporations (10.5 percent). The Industrial Investment Bank of India reported the highest rejection rate (64.1 percent) followed by the Industrial Finance Corporation of India (53 percent).

An evaluation of the performances of various industries revealed that the highest success rate was reported in the Electronic and Electrical Equipment industry. This was mainly because of the diversification of activities of the companies in this sector to software development. The Paper industry reported the highest rejection rate. The crash in the international prices of paper due to the global economic recession and the dumping of products from Canada, Russia and other ASEAN countries made a large number of units in this sector sick and nonviable.
Among the different states the highest success rate was reported in Maharashtra. This was mainly due to the high success rate in the Electronic and Electrical Equipment industry. Himachal Pradesh topped in the rejection rate due to the non-viability of units in the Paper industry. This points out that there is Operating Agency-wise, industry-wise and state-wise difference in the success rates.

7.2.2 Issues with the BIFR

The main thrust in the functioning of the BIFR is to make efforts for the rehabilitation of sick units. The main plank of the approach has been to ensure the continued use of productive assets, protection of employment and safeguarding the loss of public funds provided by banks and institutions and keeping the economic activities going. This resulted in initiating revival measures in the public interest in sick units with doubtful viability. Rehabilitation scheme can be successful only if the unit is technically, economically and commercially viable. Companies becoming sick due to the anomalies in the various functional areas can be rehabilitated easily whereas sickness due to macro economic reasons like economic, political, international factors and government legislation cannot be cured so long as such reasons exist. Out of the 180\(^1\) companies selected for the study, 56 companies became sick due to macro economic reasons and 124 companies, due to firm specific reasons. Rehabilitation schemes were sanctioned in 20 selected companies that became sick due to macro economic reasons and among them only two companies were declared no longer sick. Out of the 69 rehabilitation schemes sanctioned in companies which became sick due to firm specific reasons, 26 companies were declared no longer sick. This makes it clear that it is difficult to rehabilitate those companies which became sick due to macro economic reasons so long as such reasons exist, and the policy of the BIFR to give

\(^1\) Out of the 203 sick companies selected for the study, 23 references were pending at the preliminary stages.
preference to rehabilitation over winding up 'in the public interest' adversely affected the success rate of the rehabilitation schemes.

Timely detection of sickness and implementation of a properly drawn rehabilitation scheme are essential for the revival of a sick unit. This requires timely reporting of sickness to the BIFR and sanctioning and implementing a rehabilitation scheme without any delay. Delay in reporting sickness by companies and delay with the BIFR in sanctioning and implementing the rehabilitation schemes led to the failure of the rehabilitation schemes in many cases.

Timely reporting of sickness is a prerequisite for the timely implementation of a rehabilitation scheme. Hence SICA made it mandatory on the Board of Directors of the company to report its sickness within 60 days from the date of finalisation of the audited accounts. To ensure timely reporting of sickness, the Act also empowers the central government, state governments, the RBI, public financial institutions or scheduled banks to make a reference to the Board if it has sufficient reason to believe that an industrial company has become sick. But often reporting of sickness was delayed. Among the 180 companies selected for the study no company was able to report its sickness to the BIFR within the prescribed time limit. Sixty-one companies reported within 3-6 months, 81 companies within 7-12 months and 38 companies took more than one year to report their sickness to the BIFR and the success rate among them were 21.3 percent, 14.8 percent, and 7.9 percent respectively. This points out that early reporting of sickness increased the chances of revival of sick companies.

Companies reporting to the BIFR in the prescribed form are given registration after a preliminary scrutiny of the application. Then the BIFR conducts a detailed enquiry to determine the sickness and viability of the company. The enquiry is normally done by an Operating Agency, which is required to complete the enquiry within a period of 60 days. The Board reserves
the right to extend this time limit in desirable circumstances. Taking this loophole as a practice the enquiry by the Operating Agencies is often delayed which in turn causes delay in implementing the rehabilitation scheme. Among the 180 companies considered for the study, only in 16 cases the enquiry was completed within the stipulated time limit. In 86 companies it took 3-6 months and in 78 cases, more than 6 months were taken to complete the enquiry and the success rates among them were 25 percent, 17.5 percent, and 11.5 percent respectively. This shows that early determination of sickness increased the chances of revival of sick companies.

After determining the sickness and viability of the sick units reported, the BIFR takes steps to rehabilitate both viable sick units and those units considered essential to the ‘public interest’. Where the Board finds that the sick unit is able to make its networth positive on its own it may sanction the scheme and give time to the company for its self-revival. This happens where the sick unit reported has already implemented a rehabilitation scheme and the Board is satisfied that the scheme can make the operations of the company viable within a reasonable period of time. This avoids all procedures associated with preparing and getting sanction of the rehabilitation scheme and it also helps its early implementation. Among the 180 companies selected for the study rehabilitation schemes were sanctioned in 89 selected cases. Among them the BIFR has given approval for the continuation of already implemented rehabilitation schemes in seven cases and new rehabilitation schemes prepared by the Operating Agencies in 82 cases. The success rates were 71.4 percent and 28 percent respectively. This indicates that the success rate is high where already implemented rehabilitation schemes are approved.

Where the Board finds that the sick company has no rehabilitation scheme of its own and it is expedient in the ‘public interest’ to rehabilitate the company, it appoints an Operating Agency to prepare a rehabilitation scheme for the company
The Operating Agency is required to prepare the scheme in consultation with the Participating Agencies normally within a period of 90 days and the Board reserves the right to extend this time limit if needed. The Board can sanction a rehabilitation scheme only after arriving at a consensus among all participating agencies regarding relief and concessions. This necessitates repeated sittings of the Board and is a time consuming process affecting the timely implementation of the rehabilitation schemes. The Operating Agency is required to prepare the rehabilitation scheme within a period of 90 days but no Operating Agency was able to finalise a rehabilitation scheme within one year of reporting to the BIFR.

An analysis of the time taken for sanctioning new rehabilitation schemes revealed that there was an inverse relationship between the time taken for sanctioning the rehabilitation schemes and their success rate. Among the 82 new rehabilitation schemes sanctioned by the BIFR, a time period of 1-2 years was taken for finalising 19 schemes, 2-3 years for 35 schemes and 3-4 years for 20 schemes. The success rates among them were 42.1 percent, 37.1 percent and 10 percent respectively. In eight cases it took more than four years to sanction a rehabilitation scheme and among them no company was declared successful. *It shows that early sanctioning of the rehabilitation schemes increased the rate of success.*

The delay caused in preparing and sanctioning rehabilitation schemes affected the success rate of the rehabilitation schemes adversely. The BIFR does not exercise any judicial power to sanction a rehabilitation scheme. It exercises only an administrative function in framing a rehabilitation scheme for the company. Therefore, the BIFR is prevented from taking appropriate decisions regarding relief and concessions from the participating agencies and has to depend on the consensus approach in taking decisions regarding the implementation of the rehabilitation schemes.
The delay in arriving at a consensus among the participating agencies in relief and concessions often affected the viability of the schemes and it necessitated the extension of the cut off dates and revision of the schemes in many cases. It further delayed the implementation of the rehabilitation schemes. Among the 89 rehabilitation schemes considered for the study only in 21 companies were original rehabilitation schemes implemented as such and among them the success rate was 57.1 percent. Due to the delay in arriving at a consensus among the participating agencies cut off dates were extended in 68 rehabilitation schemes and among them revision of the schemes were made in 40 cases. The extension of the cut off date and revision of the schemes delayed their implementation further and the success rate among them was only 23.5 percent. *It makes clear that the success rate is higher where rehabilitation schemes were implemented without the extension of the cut off date.*

The heavy workload with the BIFR also affected the timely implementation of rehabilitation schemes. The eagerness of the promoters to get the unit declared sick in order to get *the BIFR protection* caused many companies running on loss reported their condition to the Board providing false information through manipulated accounts. As on 31 December 2004, the BIFR had registered 5147 references and among them 2679 references were rejected (winding up recommended in 1302 cases and 1377 cases were dismissed non-maintainable) after completing detailed enquiry by the Board. They represented 52 percent of the

---

2Under section 22 the following proceedings against a sick industrial company are to be suspended:
- Suit for recovery of money
- Suit for enforcement of any security in respect of any loans and advances granted to the company
- Proceedings for execution of distress against the properties of a sick industrial company
- Proceedings for the appointment of receiver
- Winding up of a sick industrial company
total number of references registered. *This increased the workload of the Board, which in turn caused delay in formulating and implementing rehabilitation schemes in genuine cases.*

### 7.2.3 Defective Implementation of the Rehabilitation Schemes

Only timely implementation of a properly drawn rehabilitation scheme can help the revival of a sick unit. In order to ensure timely implementation of the rehabilitation scheme the participating agencies should extend the agreed support in time. Any delay in providing the agreed support or partial support /withdrawal of support by the Participating Agencies result in defective or partial implementation of the rehabilitation schemes.

Among the 89 sanctioned rehabilitation schemes considered for the study only in 74 companies rehabilitation schemes were fully implemented. Among them 37.8 percent cases were declared no longer sick. In 15 companies rehabilitation schemes were only partially implemented due to the delay in providing the agreed support or partial/withdrawal of support by one or more of the participating agencies and all those rehabilitation schemes were declared failed. *This makes it clear that the rehabilitation scheme is successful only with the total and undiluted support of the participating agencies.*

The success of the rehabilitation schemes requires the timely support of all participating agencies. Delay in extending support/withdrawal of support by various participating agencies affected the success of the rehabilitation schemes in varying degrees according to their importance to the scheme. Among the various participating agencies there was a success rate of 49 percent in the timely support schemes by banks and financial institutions and in their delayed/no support cases the success rate was only 9.5 percent. The success rate in timely support cases of governments, labour and the promoters were 54.8 percent, 40 percent and 43.1 percent respectively. In the delayed/no support cases of governments the success
rate was only 25.6 percent and all delayed/no support cases of labour and promoters failed. *This indicates that timely support of the participating agencies without delay increased the chances of success of the rehabilitation schemes.*

### 7.2.4 Issues with the Operating Agencies

Operating Agencies act as an arm of the BIFR in rehabilitating sick units. They make enquiries to determine the sickness of the companies reported, formulate rehabilitation schemes in consultation with other Participating Agencies, monitor the implementation of the rehabilitation schemes and report the progress in implementing the schemes to the Board. They have expertise in formulating rehabilitation schemes and monitoring their implementation. Thus the efficiency of the Operating Agencies may influence the chances of success of the rehabilitation schemes. The efficiency of the Operating Agencies can be evaluated by analysing the time taken for determining sickness and formulating rehabilitation schemes.

The efficiency of the Operating Agencies in determining sickness in companies allotted to them within the prescribed time limit help the timely implementation of the rehabilitation schemes and increases the success rate. Among the 180 companies allotted to various Operating Agencies to determine their sickness, only in 8.9 percent cases the enquiry was completed within the stipulated time limit of 60 days, in 47.8 percent cases 3-6 months were taken and in 43.3 percent cases more than six months were taken to complete the enquiry. Among the various Operating Agencies, the ICICI was the most efficient in determining the sickness of companies allotted to it while the performance of the IIBI was the worst. *It indicates that in very few cases the determination of sickness is completed within the stipulated time and there are differences among the Operating Agencies also.*
Timely formulation of the rehabilitation schemes increased the chances of success of the rehabilitation schemes. Among the 82 rehabilitation schemes formulated by the Operating Agencies, 23.2 percent schemes took 1-2 years, 42.7 percent schemes 2-3 years, 24.4 percent schemes 3-4 years and 9.7 percent schemes took more than four years for their finalisation. Among the Operating Agencies the ICICI was the most efficient in finalising the rehabilitation schemes for companies allotted to it whereas the performance of IIBI was the worst. *It shows that as in the case of determination of sickness, only in very few cases formulation of rehabilitation schemes is completed within a reasonable period of 1-2 years and there are Operating Agency-wise differences also.*

The BIFR in its Performance Review 1998 acknowledged the poor operating performance of the Operating Agencies in the following words: *"while some operating agencies were functioning very effectively some of the Operating Agencies have failed to perform their responsibility efficiently in terms of the Act. Undue delay in processing the submitted rehabilitation package by the companies, absence of qualitative appraisal of such proposals and also the casual approach while conducting techno-economic viability studies of the performance of companies have resulted in consequential delays in finalising the rehabilitation schemes. At times Operating Agencies, specially if they have happened to be the lead bank, have shown greater interest in formulating an One Time Settlement (OTS) proposal for recovering a substantial portion of their dues rather than working out an effective rehabilitation package for the company."*

### 7.2.5 Weaknesses of the Rehabilitation Schemes

The non-viability of the rehabilitation schemes implemented resulted in their failure in many cases. Inclusion of many proposals, which were not capable

---

3 The BIFR Performance Review 1998, P34.
of being achieved in the normal course of business, affected the viability of many rehabilitation schemes. To improve the operating efficiency of companies rehabilitation schemes included many proposals like increase in sales and productivity, reduction in cost of production and interest on borrowed funds and the like. But the failure of the rehabilitation schemes in providing means to achieve them affected their viability.

Every company requires a desired level of sales turnover for survival and hence all rehabilitation schemes included proposals to increase sales. Increase in the scale of operation of existing products and diversification of the activities of the company to new products are the commonly adopted measures to increase sales. Among the 89 sanctioned rehabilitation schemes considered for the study, only in 11 companies diversification of the activities were suggested to increase sales and they reported a success rate of 63.6 percent. In 78 companies increase in scale of operation of existing products was proposed to boost sales and among them only 26.9 percent cases were successful. This makes it clear that diversification of the activities of sick companies to new products were more successful in increasing the sales turnover.

Among the 89 rehabilitation schemes sanctioned, 55 companies could not achieve the projected sales envisaged in the rehabilitation schemes. The main reasons for the non-attainment of the sales targets fixed in the rehabilitation schemes were identified as fixation of high sales targets (24 companies), inadequate sales promotion measures (22 companies) and low demand for the products (6 companies). It is not possible to increase the sales where the decline in sales is due to the low demand for the products like changes in fashion, technology etc., whereas fixation of sales targets at non-attainable levels and inadequate sales promotion measures were the inherent weaknesses of the rehabilitation schemes.
Poor viability study results in fixation of sales targets at non-attainable levels. In the case of the Elcera Substrates Ltd, the viability study failed to take note of the availability of imported ceramic cores at a price lower than the domestic price due to the reduction in the import duty of ceramic cores. Similarly, in the case of Transformers and Electricals Kerala Ltd (TELK), if the rehabilitation schemes included measures for the modernisation and diversification of the company, it would have been able to increase the sales by competing with the multi-national companies.

Increased use of borrowed funds and a heavy burden of interest is a common feature of every sick unit. Hence rehabilitation schemes take measures to eliminate/reduce the burden of interest. One Time Settlement (OTS) of dues with own funds can eliminate interest burden totally. This may not be possible in many cases. Reducing rate of interest is the commonly adopted method to reduce the interest burden. Among the 89 rehabilitation schemes sanctioned, One Time Settlement (OTS) of dues was made possible only in six companies; reduction in interest in 67 cases and other measures of financial restructuring were made in four cases. The success rates in those cases were 66.7 percent, 32.8 percent and 25 percent respectively. This makes it clear that complete elimination of interest increased the chances of revival of sick units considerably.

7.2.6 Factors Influencing Success of the Rehabilitation Schemes

There were a large number of factors affecting the rehabilitation of sick units. Important among them were policies of the government, effects of globalisation and measures included in the rehabilitation scheme to make the operation of the company viable viz., increase in sales, reduction in cost of production, financial restructuring and change in management. Increase in the capacity of operation and diversification of the activities of the company were the commonly adopted methods to increase sales. Financial restructuring includes
increase in promoters' contribution, increase in borrowing and OTS of dues, waiving of interest, loans and penal charges.

In the multiple regression (linear) analysis made to study the impact of different variables in the success/failure of the rehabilitation schemes it is found that the 23 variables considered for the study explain 76.29 percent of the result and among them five variables viz., sales, scale of operation, support of the Participating Agencies, One Time Settlement of dues and government policy are statistically significant.

7.3 Performance of Companies Reported to the BIFR

The BIFR considers a rehabilitation scheme as successful only when the company is able to make its networth positive during the period of the implementation of the rehabilitation scheme. This may not be possible always. But the implementation of the rehabilitation schemes might have helped many companies to improve their operating efficiency and financial position to a great extent. Forty sick companies, which implemented the rehabilitation schemes sanctioned by the BIFR, were selected and their performance was analysed on the parameters of profitability, solvency, current assets and overall performance. Among them, only five companies were declared successful by the BIFR.

In order to evaluate the profitability of the companies after implementing the rehabilitation schemes the Net Profit Ratio and Return on Investment were analysed. The Net Profit Ratio showed a positive trend in 19 companies and the Return on Investment also showed the same in 18 companies. This showed that the rehabilitation schemes were effective in improving the net profit in 47.5 percent companies and the return on investment in 45 percent cases.

The short-term solvency position of the companies was analysed with Current Ratio and the long-term solvency position, with Debt-Equity Ratio and
Interest Coverage Ratio. The Current Ratio showed a positive trend only in 11 companies. The Debt-Equity Ratio showed a negative trend in 20 companies and the Interest Coverage Ratio showed a positive trend in 19 companies. This indicates that the rehabilitation schemes were effective in improving the short term financial position of 27.5 percent companies, in reducing the debt of 50 percent companies and in improving the ability to pay interest charges of 47.5 percent companies.

The performance of current assets was analysed with Inventory Turnover Ratio, Debtors Turnover Ratio and Working Capital Turnover Ratio. The positive trend in the Inventory Turnover Ratio in 17 companies, Debtors Turnover Ratio in 15 companies and the Working Capital Turnover Ratio in 16 companies showed that rehabilitation schemes were effective in improving the efficiency of the inventory management in 42.5 percent companies, debtors' management in 37.5 percent cases and the utilisation of working capital in 40 percent cases.

The overall performance of sick units after implementing the rehabilitation schemes were analysed with the help of the Multiple Discriminant Analysis technique developed by Edward I Altman. He made use of five different ratios to represent liquidity, profitability, leverage, solvency and activity to calculate an overall index, 'Z' score to predict the insolvency of a firm. The trend in 'Z' score was taken as an indicator of the effectiveness of the rehabilitation scheme in improving the overall performance of sick units after implementing the rehabilitation schemes. Among the 40 companies selected for the study the 'Z' score showed a positive trend in 12 companies including four companies declared 'no longer sick' by the BIFR. It shows that the implementation of the rehabilitation schemes helped to improve the overall performance in 30 percent companies.
7.4 Case Studies of Companies Reported to the BIFR

Among the eight companies selected for the case study only two companies viz., the Kerala Minerals and Metals Ltd (KMML) and the Steel and Industrial Forgings Ltd (SIFL) were able to come out of the purview of the BIFR after making their networth positive. One Time Settlement (OTS) of dues and complete elimination of interest charges helped SIFL to make its rehabilitation scheme a success. The change in the government policy helped the revival of KMML whereas it resulted in the failure of the rehabilitation scheme in the Elcera Substrates Ltd (ESL). The decision to include the titanium dioxide in the restricted list of imports resulted in a spurt in its demand in the domestic market, which in turn helped the revival of KMML. The liberalisation of import of ceramic cores led to the failure of the rehabilitation scheme in the ESL.

Poor implementation of the rehabilitation scheme due to the non-cooperation of the participating agencies led to the failure of the rehabilitation scheme in the South India Wire Ropes Ltd (SIWR) whereas the failure of the rehabilitation scheme to provide supportive measures to increase sales led to its failure in the Pigments India Ltd (PIL). Poor sales along with the increase in operating expenses and interest cost resulted in the failure of the rehabilitation schemes in the Aluminium Industries Ltd (ALIND) and the Travancore Rayons Ltd (TRL). In the case of ALIND, the Operating Cost Ratio increased from 117 percent to 130 percent between 1990 and 1996 and the increase in interest cost from Rs.615 lakhs to Rs.1302 lakhs during the same period adversely affected the success of the rehabilitation scheme. The increase in Operating Cost Ratio from 88.9 percent to 115.8 percent between 1993 and 2000 and the finance charges from Rs.531 lakhs to Rs.720 lakhs during the same period led to the failure of the rehabilitation scheme in TRL. Poor implementation of the rehabilitation scheme due to the diversion of funds, low productivity, heavy interest charges and lack of
modernisation and diversification of the activities of the company caused the failure of the rehabilitation scheme implemented in Transformers and Electricals Kerala Ltd (TELK).

These findings confirm that the major factors influencing the success/failure of the rehabilitation schemes are government policy, sales, scale of operation, OTS of dues and the support of the participating agencies.

7.5 Suggestions

On the basis of the above-mentioned findings, the following suggestions are made for dealing with the problem of industrial sickness and rehabilitation of sick companies in a better way.

i. Industrial sickness is a gradual process starting with declining profitability and ending with the closure of the unit. Sick companies reported to the BIFR after the erosion of their total networth are at a stage of imminent insolvency and it is difficult to rehabilitate them. If the chances of 'incipient sickness' at the time of declining profitability are identified, rehabilitation of the units becomes easy.

ii. Since prevention is better than cure a monitoring mechanism like the CRISIL rating of financial instruments may be introduced to identify companies with declining profitability and the chances for incipient sickness. It may help to take preventive and corrective measures at the outset.

iii. Commercial banks and financial institutions may be directed to deal with sick companies more liberally. Liberal financing in times of crisis may save the enterprise from a possible failure.

iv. The BIFR has initiated rehabilitation measures in many companies with doubtful viability to take 'ameliorative' and 'remedial' measures in 'public interest'. This resulted in the failure of rehabilitation schemes in many cases.

---

4 The Credit Rating Information Services of India Limited (CRISIL) Bombay is established with the objective of rating debt obligations of Indian companies. Its rating provides a guide to investors as to the risk relating to timely payment of interest and repayment of principal. It rates debentures, fixed deposits, short-term instruments and preference shares.
A rehabilitation scheme can be successful only if the company is technically, economically and commercially viable. Viability should be the only criterion for the selection of a sick company for rehabilitation.

v. In the wake of rehabilitation 'in public interest' many sick companies with doubtful viability continue to exist for a long time without any chances of revival. The existence of a sick unit for a long time causes enormous loss to the society. All unviable companies should be wound up immediately so that the capital sunk in them will become productive elsewhere.

vi. The delay in reporting sickness by companies has adversely affected the timely implementation of the rehabilitation schemes and the chances of their success. Imposition of a heavy penalty for late reporting can have a coercive effect and thus ensure timely reporting of sickness by companies.

vii. The BIFR process in conducting an enquiry to determine the sickness in a company by appointing an Operating Agency is a time consuming process affecting the timely implementation of the rehabilitation scheme. The creation of a separate department with the BIFR consisting of experts specialised in the matter can ensure determination of sickness in a company at the time of registration without any delay.

viii. To deal with the problems of industrial sickness more effectively, the powers of the BIFR may be enhanced. Instead of depending solely on the Operating Agencies for all matters connected with the rehabilitation of the sick units, the BIFR should constitute its own expert committees to chalk out the modalities of rehabilitation of sick units reported.

ix. The quasi-judicial nature of the BIFR proceedings in sanctioning rehabilitation schemes, which depends on consensus at all stages, is a time consuming process. It limits the role of the BIFR into administrative function only. If the Board has the power to direct the participating agencies for necessary relief and concessions needed for the successful implementation of the rehabilitation scheme timely sanctioning of the rehabilitation scheme can be ensured. For this purpose necessary changes should be made in the SICA.
x. The proper implementation of a rehabilitation scheme sanctioned as per schedule should be made the collective responsibility of all Participating Agencies. Withdrawal of support and delay in providing support by the Participating Agencies should be made punishable under the Act. This can do away with the problems associated with partial and delayed implementation of the sanctioned rehabilitation schemes.

xi. The responsibility for the proper implementation of the rehabilitation schemes should be shared equally by the management and the Operating Agency. The Operating Agency should be allowed to take over the management of the company, if the implementation of the rehabilitation scheme is delayed due to the failure of the promoters in making their commitments.

xii. Sharing the responsibility of monitoring the implementation of the rehabilitation scheme by the Special Directors appointed by the BIFR and the Operating Agency can make it effective.

xiii. The promoters should not be allowed to enjoy the 'BIFR protection' granted to the company without making sacrifices. Rehabilitation of the company should not be made the social responsibility of only financial institutions and banks. The burden of rehabilitation should be borne by the promoters with support from banks and financial institutions.

xiv. A sick unit being financially weak, the increased use of debt and the heavy financing cost accelerate the process of failure. Rehabilitation schemes framed with measures to reduce or eliminate debt and cost thereon, can accelerate the chances of revival of companies.

xv. One Time Settlement (OTS) of dues with own funds is the best measure to eliminate interest charges and to increase the profitability of the company. Where own funds cannot be made available to arrange OTS of dues, conversion of debt into equity is a welcome step to escape from the burden of interest.
xvi. To enjoy the benefits of the ‘BIFR protection’ many companies made references misrepresenting facts and manipulating accounts. It increased the workload of the BIFR and in turn affected performance of the Board adversely. False reporting of sickness should be made punishable so that the quantum of work with the BIFR would be reduced.

xvii. The heavy workload with the BIFR has adversely affected the timely sanctioning and implementation of the rehabilitation schemes. If the working of the BIFR in its full capacity is ensured by filling the retiring vacancies in time, the efficiency of the Board in disposing the reported cases can be improved.

xviii. Since the gravity of sickness is more in certain industries like textiles, paper etc, special measures may be taken to deal with the problems of firms in such industries.

xix. A special fund may be created to provide assistance/subsidy for the rehabilitation of companies becoming sick due to government policy.

xx. The creation of a special agency consisting of experts from trade and industry in an advisory capacity on ensuing policies of the government can avert the chances of companies becoming sick due to changes in the government policy. The committee can bring to light all possible beneficial avenues in the international trade agreements to protect the industry. In the wake of globalisation of the economy such a committee can act as a watchdog of the industry in the country.

7.6 Scope for Further Research

The researcher would like to have the privilege of pointing out certain aspects connected with industrial sickness where further research can be initiated.

i. Industrial sickness in India has affected all industries in all states. On the lines with the present study, similar studies in sick industrial units in a particular industry or in a particular state may be undertaken.
ii. Though potentially sick companies are required to report to the Board, they are not registered. On a selective basis they are advised on measures for arresting sickness. It will be worthwhile to study their effectiveness so that modifications can be made wherever necessary.

iii. The globalisation of the Indian industry may have made certain categories of industrial units sick and unviable due to lack of competitiveness in the international market. The response of these companies to these changes may be investigated and it may provide some kind of feedback for formulating policies for dealing with the problem of industrial sickness.

iv. An in-depth study into the industrial units for the various reasons that causes them to become sick due to the sudden policy changes of the government policies may help the government to formulate its trade and industrial policies on a long-term perspective.

7.7 Conclusion

The present study highlights the reasons why the establishment of the BIFR could not curb the growing incidence of industrial sickness in the country. The findings explain the major factors responsible for the success/failure of the rehabilitation schemes focusing on the weaknesses of SICA and the issues with the BIFR, the Operating Agencies, the rehabilitation schemes and their implementation. It is hoped that the findings would contribute to improving the efficiency of the BIFR and making it a nodal rehabilitation agency in the country.

The researcher would be happy, if the findings and suggestions stimulate further studies and constructive measures to strengthen the industrial sector so that the pace of economic progress of the nation could be accelerated.

* * * * * * * *