

CHAPTER IX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The growth of Small Scale Industries over the years has been very encouraging. The numerical growth of small scale units has also brought the problems of unsatisfactory performance or sickness. Sickness in small industry is now assuming an alarming proportion. If not curbed such sickness is likely to defeat the very basic objectives of the Government-diffusion of economic power, employment creation, human resource development and dispersal of industrial activity. Sickness in small industry like in human body if not diagnosed and cured intime will aggravate and threaten the very existence of the industry.

Reserve Bank of India has given an extensive definition of a sick unit. A unit is deemed sick if "it incurres cash losses for one year and in the judgement of financial institutions it is likely to run into cash losses in the current and coming years also and if it has imbalances in its financial structure such as current ratio of less than one, a deteriorating debt equity ratio ie., total outside liabilites to net worth and the cumulative losses exceed capital and reserves."

Sickness in small industry is rampant in recent years. There is a significant growth of sickness in small industry. Sickness in small industry is growing at an annual rate about 28.0 per cent and 13.0 per cent in terms of bank credit. Today there are more than 2 lakh sick small scale units with an outstanding bank credit of Rs. 7000 crores. Nearly 29,000 sick small units are added to the sick list every year ie., 90 units fall sick every working day. In the light of the above the present study is an attempt to findout the causes of sickness, analyse the financial statements, suggest any preventive measures to avoid incidence of sickness and to suggest rehabilitation programmes.

Objectivesof the Study :

The present study attempts

- a) To identify the specific reasons for sickness in small industry in terms of management, technical, marketing and financial aspects of the units.
- b) To examine the basic differences in the characteristics of sick and healthy units.
- c) To evaluate the policies and programmes for revival of sick small units.

- d) To study the trends in the progress and failure of the units by analysing the financial statements.
- e) To suggest remedial measures to prevent and cure industrial sickness.

Scope and Methodology :

This study is with reference to selected small scale units located in Prakasam district of Andhra Pradesh. As the information that is available to us is from the records of Syndicate Bank Branches of Prakasam District, we may here give the definition followed by the bank to identify sickness. Accordingly, any unit which fulfils one or more of the following conditions is declared as sick.

- a) Cash losses have incurred for three consecutive years and frequent infusion of external funds for its survival has become necessary.
- b) Net worth has been completely eroded.
- c) Accounts have been irregular for more than 12 months and such irregularities continue to be on the increase.
- d) Continuous default of repayment of term loans.
- e) Stoppage of work for atleast six months continuously due to external or internal causes.

The scope of this study is limited to the selected samples of small scale units financed by Syndicate Bank branches located in Prakasam district. Forty units each of the sick and healthy units are selected from the total universe of 71 sick and 322 healthy units. To study the performance of these units, financial statements are collected from 19 branches of Syndicate Bank. The selected units from both groups of sick and healthy are distributed under four categories viz., 1) Agro based units (40), 2) Mineral based units (20), 3) Engineering based units (10), 4) Chemical based units (10).

This study examines the comparative performance of sick and healthy units for the three years of operations from 1988 to 1990. The performance of these units are assessed on the basis of the financial statement analysis. The analysis is done in two ways. 1) The composition of assets, liabilities and output are analysed for the latest year 1990, 2) The analysis of the same parameters is done for the three consecutive years (from 1988 to 1990) to assess the performance trend.

Ratio Analysis :

Considering the significance of ratios in assessing the performance of the units, a number of relevant economic and financial ratios are worked out,

first for the latest year and then for the three consecutive years to get the signals about the health of the units. The selected ratios are related to four main groups viz., short term solvency, activity, profitability and financial stability.

Main findings :

Industry wise financial statements have been carried out for the year 1990 and for the three consecutive years from 1988 to 1990. However, here only the average of each parameter is considered over the period 1988, 1989 and 1990 and the performance trend reported. Table 9.1 presents the outcome of these industry wise analysis for all the categories of industries. We comment on the main points where consistent trend is observed.

1. Agro based Industry :

The average size measured interms of total assets over the period has increased in both sick and healthy units. Similarly the proportion of other assets to total assets has also increased continuously in both categories. Both the profitability ratios have declined in sick units while they have increased in healthy units. All the financial stability ratios have shown a decline in sick units while all the ratios of financial

stability in healthy units have shown an increase. In all the other cases in both sick and healthy units a mixed trend has been observed.

2. Mineral based Industry :

The average size of units in terms of total assets have been increasing in both sick and healthy units over the period. The current assets to total assets ratio has been declined in sick units while it has increased in healthy units. The profitability ratio net profit to total assets and the financial stability ratio net worth to net sales increase in sick units, while they have declined in the case of healthy units. Sundry debtors to average daily sales have continuously been increased in both sick and healthy units.

3. Engineering based Industry :

The short term solvency ratios of sick units have been increasing continuously while in healthy units the current ratio has increased and other ratios have shown a mixed trend. Sundry debtors to average daily sales have increased continuously in sick units where as it has shown mixed trend in healthy units.

4. Chemical based Industry :

The average size of total assets increased conti-

TABLE 9.1
CHANGES IN SELECTED CHARACTERISTICS IN SICK AND HEALTHY UNITS BY INDUSTRY, 1988-1990.

Sl.No.	Particulars	Agrobased units			Mineral based			Engineering based			Chemical based		
		Sick	Healthy	No. of units	Sick	Healthy	No. of units	Sick	Healthy	No. of units	Sick	Healthy	No. of units
1		20	20	20	10	10	5	5	5	5	5	5	
2		3	4	4	5	6	7	8	8	9	9	10	
I)	Assets :												
	1. Average size of units interms of total assets.	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	
	2. Current assets as a percentage of total assets.	--	--	--	Decline	Increase	Increase	Increase	Increase	Increase	Increase	Increase	
	3. Net fixed assets as a percentage of total assets.	Decline	--	--	--	Decline	Decline	Decline	Decline	Decline	Decline	Decline	
	4. Other assets as a percentage of total assets.	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	
II)	Liabilities :												
	1. Current liabilities as a percentage of total liabilities	--	Decline	Decline	--	--	Increase	Increase	Increase	Increase	Increase	Increase	
	2. Long term liabilities as a percentage of total liabilities	--	--	--	--	--	Decline	Decline	Decline	Decline	Decline	Decline	
	3. Net worth as a percentage of total liabilities.	--	Decline	Decline	--	--	Decline	Decline	Decline	Decline	Decline	Decline	
III)	Output :												
	1. Average size of the units in terms of total output	--	Increase	Increase	--	Increase	Increase	Increase	Increase	Increase	Increase	Increase	
	2. Net profit as a percentage of total output	Decline	Increase	Increase	--	Decline	Decline	Decline	Decline	Decline	Decline	Decline	
	3. Total assets as a percentage of total output	--	--	--	--	--	--	--	--	--	--	--	
	4. Depreciation as a percentage of total output	--	--	--	--	--	--	--	--	--	--	--	
IV)	Short term solvency Ratios :												
	(average)												
	1. Current assets to current liabilities.	--	Increase	Increase	Decline	Decline	Decline	Decline	Decline	Decline	Decline	Decline	
	2. Current liabilities to total assets	--	Increase	Increase	--	--	Increase	Increase	Increase	Increase	Increase	Increase	
	3. Current assets to total assets.	Increase	Increase	Increase	Decline	Decline	Decline	Decline	Decline	Decline	Decline	Decline	
	4. Working capital to total assets.	--	--	--	--	--	--	--	--	--	--	--	
	5. Working capital to Bank Credit.	--	Increase	Increase	--	Increase	Increase	Increase	Increase	Increase	Increase	Increase	
V)	Activity Ratios :												
	(average)												
	1. Net working capital to Net sales	--	Increase	Increase	--	Increase	Increase	Increase	Increase	Increase	Increase	Increase	
	2. Stock to Net sales	--	Decline	Decline	--	Decline	Decline	Decline	Decline	Decline	Decline	Decline	
	3. Net sales to total assets	--	Increase	Increase	--	--	--	--	--	--	--	--	
	4. Sundry debtors to average daily sales.	--	--	--	Increase	Increase	Increase	Increase	Increase	Increase	Increase	Increase	
VI)	Profitability Ratios :												
	(average)												
	1. Net profit to total assets	Decline	Increase	Increase	Increase	Decline	Decline	Decline	Decline	Decline	Decline	Decline	
	2. Net profit to Net-worth.	Decline	Increase	Increase	--	Increase	Increase	Increase	Increase	Increase	Increase	Increase	
VII)	Financial Stability Ratios (average)												
	1. Net worth to Debt	Decline	Increase	Increase	--	--	--	--	--	--	--	--	
	2. Net worth to Bank credit	Decline	Increase	Increase	--	--	--	--	--	--	--	--	
	3. Net worth to Net sales.	--	Increase	Increase	--	Decline	Decline	Decline	Decline	Decline	Decline	Decline	
	4. Net worth to Total assets	Decline	Increase	Increase	--	--	--	--	--	--	--	--	

* '-' indicates fluctuating trend.

nuously both in sick and healthy units over the period. However two financial stability ratios declined continuously in sick units where as they have increased continuously in healthy units. Sundry debtors to average daily sales have interestingly declined continuously in both sick and healthy units.

Case Studies :

Two units - a sick unit and a healthy unit both of mineral based units are selected particularly for extensive and indepth study. Here we have made a comparative study of balance sheets of each firm individually and collectively and drew certain conclusions. The ratios which are commonly used by banks to identify the financial status of the firms are used and analysed and some measures are recommended for the revival of the sick unit.

Causes of Sickness :

The causes of sickness of forty sick units are analysed broadly under ten categories as given below:

- 1) Management deficiencies
- 2) Marketing deficiencies
- 3) Shortage of working capital
- 4) Power shortage
- 5) Labour problems

- 6) Raw material shortage
- 7) Fluctuating demand for their products
- 8) High cost of production
- 9) Under utilisation of capacity and
- 10) Government Policies

Analysis of causes of Sickness :

The over all analysis of causes of sickness in 40 sick industrial units shows that marketing constrains have been playing a major role in causing an industrial unit sick. Nearly 75 per cent of the sick units have been facing the problem of marketing their products. The next important cause for sickness in the industry is financial constraints. The scarcity of working capital is accute in almost all the sick units. 27 sick units have mentioned financial problems as the cause of sickness in their units. Shortage of raw materials seemed to be the third important cuase for sickness in 24 units out of 40 sick units.

An individual industry-wise analysis shows that raw material shortage is the major cause of sickness is agro-based units, working capital shortage is the major cause in mineral based units, marketing problem is the major cause for engineering and chemical based units according to the study.

Policy for Small Scale Sick Units :

According to the present study sick units in small scale sector are to be given special attention under the scheme for rehabilitation and extending assistance for refinancing at a concessional rate of interest. There is an urgent need to set up regional cells where ever necessary to render the necessary monitoring and counselling assistance. Where sickness is due to lack of power and raw materials etc, the banks are advised to refer such cases to state level corporation committees and arrange necessary supplies of power and raw materials. The Government and other financial institutions must help in marketing the products of small scale units which is rather an important cause for the failure of small scale units. Moreover the Government and other institutions involved in the purchase of the products of small units are directed to settle dues on priority basis and to ensure that the credit given to large scale units for working capital is applied first towards meeting dues of small scale suppliers.

Prevention of Sickness :

Any new or existing industrial unit has to consider mainly five factors before they start their operations. These are suppliers of raw materials and

Services, buyers of output, threats from substitutes, possibility of new entrants and competition from existing units. Understanding of how these forces act is very important for a unit to operate competitively. If the above five factors are considered thoroughly and extensively before starting any unit there will be less possibility of a unit going sick. Even if a unit go sick immediately a feed back study will have to be made by the financial or other lending institutions and necessary preventive measures have to be taken before it has not become sick.

Suggestions :

Timely detection of symptoms of sickness in small scale industry and formulation of nursing programme is essential at the incipient stage it self.

There should be periodic exchange of information about the financial status of units between different financial and other agencies.

Central and State Governments should provide certain special concessions and incentives to these sick industrial units.

State Government and District Industries Development 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 sales tax, speedier redressal of any labour disputes, providing adequate market support etc.

The Government should protect the small scale industrial units from the clutches of large scale industrial units. The small scale units are facing severe problem of competition from the large scale units. Hence the Government through its agency set up has to purchase necessary products for their different organisations such as hostels, civil supplies, Government constructions, minor irrigation projects etc., and must also consider prompt payment of dues to the small scale units. Otherwise these units will suffer from working capital difficulties.

It is necessary to identify the financial ratios of fore warning sickness and take necessary action to maintain the ratios. When the size of total assets, total output, the percentage of net profit to total assets, net profit to net worth and net worth to debt have been declining it is a forwarning of industrial sickness. Hence necessary action should be taken to curb the declining trend in the ratios of these units.

Lastly, it must be borne in mind that sickness in small industry can not be attributed to a single or a particular factor alone but it is the result of contribution of various factors either inter related or inter dependent of each other. Hence an inter related study of the causes of sickness in the Small Scale Units is advised.