

activity, labour and social relations<sup>4</sup>.

Further small and cottage industries have a special claim for consideration in that they tap the local investment through which the decentralisation of industries can be achieved.

Basu emphasises the importance of small industry by saying -- "In under developed countries with large reserves of surplus labour there is undoubtedly a case for paying special attention to labour intensive and light industries scattered and decentralised rather than concentrating on capital intensive heavy industries<sup>5</sup>."

To attain the main objectives of industrial policy that of higher productivity, higher levels of employment and balanced regional growth the government has always been trying to bring in new methods and policies. It has been giving soft loans and subsidies and other assistance to small units through its financial and other institutions, providing special schemes for technocrats. The importance given to this sector can be seen from the plan allocations and policy statements of the Government.

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4. Eugene Stanley and Richard Morse, Modern Small Scale Industries for Developing Countries (New York) Mc Graw Hill Book & Co., 1967, pp. 230-248.

5. Basu, S.K. Place and Problems of Small Industries, Mukharjee & Co., Calcutta, 1957, p. 85.

Recognising the role of small scale industries the Government has given massive importance to small scale industries through its industrial policies and successive five year plans. Table 1.1. depicts the importance that has been given to small industry by the Government through its outlay in different five year plans.

Owing to the alround efforts taken by the Government through its industrial policy resolutions and liberalised licencing policy there is a tremendous increase in number of small scale industries. Table 1.2 clearly exhibits the growth of small scale industry, its importance in providing employment opportunities and its share in the total production of industrial produce and exports.

It is clear from Table 1.2 that the number of registered small scale units has grown from 8.05 lakhs to 20.80 lakhs during 1980-92. This shows that there is 158.0 per cent growth of small scale units over 12 years period. The output generated by these small units has also increased from Rs.21,635 crores to Rs.1,78,699/- crores which means 725.0 per cent growth over the same period. The employment generated by these small scale units has grown from 67 lakhs in 1979-80 to 129.8 lakhs

**TABLE 1.1**  
**PLAN OUTLAY OF DEVELOPMENT OF SMALL SCALE INDUSTRY**

Plan period	Total outlay in crores Rs.	Outlay of small industries in crores Rs.	Share of industries in total outlay
First Plan 1951-56	1,960.00	5.20	0.27
Second Plan 1956-61	4,600.00	56.00	1.22
Third Plan 1961-66	8,576.50	103.06	1.32
Annual Plan 1965-66	6,756.50	53.48	0.79
Fourth Plan 1966-69	16,160.00	96.19	0.60
Fifth Plan 1974-79	39,303.00	221.74	0.56
Annual Plan 1979-80	12,600.00	104.81	0.83
Sixth Plan 1980-85	97,500.00	616.10	0.63
Seventh Plan 1985-90	1,80,000.00	1120.50	0.62
Eighth Plan 1992-97	4,34,100.00	6334.20 *	--

Source : 1. Plan Documents

2. Small Scale Industries in India,  
D.C.S.S.I.

\* Includes village & small scale units.

TABLE 1.2

## GROWTH OF SMALL SCALE INDUSTRIES

Variables	1979- 1980	1980- 1981	1981- 1982	1982- 1983	1983- 1984	1984- 1985	1985- 1986	1986- 1987	1987- 1988	1988- 1989	1989- 1990	1990- 1991	1991- 1992
No. of Units Lakhs No's (cumulative)	8.05 (9.67)	8.74 (8.57)	9.62 (10.07)	10.59 (10.08)	11.58 (9.35)	12.42 (10.73)	13.55 (8.94)	14.76 (9.09)	15.92 (7.86)	17.12 (8.1)	18.23 (6.5)	19.48 (6.9)	20.80 (6.8)
Value of output (Rs. in Crores)	21,635 (37.02)	28,060 (27.70)	32,600 (10.18)	35,000 (7.36)	41,620 (18.91)	50,520 (21.38)	61,22 (21.2)	72,250 (18.00)	85,700 (16.62)	1,06,400 (21.9)	1,32,320 (24.4)	1,55,340 (17.4)	1,78,699 (15.6)
Employment: (in lakhs No's)	67.00 (5.02)	71.00 (5.97)	75.00 (5.63)	79.00 (5.33)	84.15 (6.52)	90.00 (6.95)	96.00 (6.67)	101.4 (5.63)	107.0 (5.52)	113.0 (5.6)	119.6 (5.8)	125.3 (4.8)	129.88 (3.6)
Exports (Rs. in Crores)	1226 (14.69)	1633 (34.0)	2071 (26.05)	2045 (-1.26)	164 (5.82)	2553 (17.98)	2769 (8.46)	3648 (31.74)	N.A (--)	5489.6 (--)	7625.74 (38.9)	9664.15 (26.7)	N.A (--)

P : Provisional

N.A : Not Available

Notes : 1. Figures in brackets indicate percentage change over the preceding year.

Source : 1. Office of the Development Commissioner, Small-scale Industries-Ministry of Industry.  
2. Economic Surveys, Government of India, Ministry of Finance, New Delhi.

in 1991-92 which also shows an increase of 93.0 per cent. The exports of small scale units have also increased from Rs.1226 crores to Rs. 9664.15 crores during 1979-80 and 1990-91.

The Government of India, in addition to these policy framework, number of financial and non-financial assistance programmes have also been formulated for the development of small scale industries. The important among them are liberalisation in granting loans, transport subsidy, central subsidy, credit guarantee schemes, concessional finance, refinance facilities, power tariff subsidy, sales tax rebates etc.

In spite of the much painstaking efforts that have been taken by the Government there has always been certain negative factors which work as loopholes in the achievement of industrial development. The numerical growth of small units has also brought the problem 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 - diffusion of economic power, employment creation, human resource development and dispersal of industries<sup>6</sup>.

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6. Modi, S.S. and Athavale J.G. of GJTCO, "Sickness in Small Scale Industry GITCO Experience", May 1988, p.3.

### Sickness in industry defined :

Sickness in industry like in human body if not diagnosed and cured in time will aggravate and threaten the very existence of the industry<sup>7</sup>.

"In strategic management terminology when a unit does not have a competitive edge and start losing for what ever reasons it is called sick"<sup>8</sup>.

Varshnay Committee defined a sick unit "as one which fails to generate internal surpluses on continuing basis and depends for its survival on frequent infusion of external funds"<sup>9</sup>. This definition is largely considered because it considers the adequacy of internal generation of funds based on operations performance.

The Industrial Development Bank of India considered a unit sick "If it has incurred cash losses for two consecutive years and its networth has been eroded to the extent of 50.0 per cent or more". The same idea was

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7. Nrupendra Rao, Rao P.N. Reddy, K.S. "Sick Industry-Problems and Solutions", What Young Managers Think II, All India Management Association, New Delhi, p. 162.
8. Dr. Ramachandran, K. Industrial Sickness and Strategic Management paper presented in the National Workshop on Sick Industrial Syndrome in India, Gandhi Labour Institute, Ahmedabad, 1988.
9. Nrupendra Rao et al., Op. cit., p. 162.

expressed by the Finance Bill 1977 stating that "a sick unit is one whose 50.0 per cent or more capital were wiped out by the losses".

State Finance Corporation (SFC) defined sickness in terms of defaults in payment of loan instalments. "Any unit which fails to pay three consecutive instalments (half-yearly) of interest and or principal is classified as sick. This definition seeks to establish relationship between management practices of meeting their debt repayment visa-vis health of the unit.

ICICI has attempted to define sickness and adverse factors that influence the occurrence of sickness by stating "Sickness is one whose financial viability is threatened by adverse factors present and continuing. The adverse factors might relate to management, market, financial burden, labour relations etc. When the impact of these factors reaches a point where a company begins to incur cash losses leading to erosion of its funds and threat to its financial viability".

Reserve Bank of India has given an extensive definition of a sick unit. A unit is deemed sick if:

- a) it incurrees cash losses for one year and in the judgement of the financial institutions it is likely to run into cash losses in the current and coming years also; and
- b) it has imbalances in its financial structure such as current ratio of less than one, a deteriorating debt equity ratio i.e., total outside liabilities to net worth.
- c) The cumulative losses exceed capital and reserves<sup>10</sup>.

The emphasis in Reserve Bank of India's definition of sickness is on profitability, liquidity and solvency of the unit.

According to the Sick Industries (special provisions) Act 1985, sick industrial company means a company (being registered for not less than seven years) which has at the end of any financial year, accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year immediately preceeding such financial year".

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10. Reserve Bank of India, Rehabilitation of Sick Units, Banker's Training College, Dadar, Bombay, 1976.

**Sick Small Scale Unit Defined :**

In 1972 the State Bank of India's Committee on rationalisation of Return in respect of SSI advances classified sick units are those whose accounts are chronically irregular and sticky.

In 1977 a working group constituted by the members of SIDO and NISIET offered a definition to a sick unit in small scale sector as "an industry which did not fulfil minimum standards of productivity and profitability over a reasonable period due to internal shortcomings and or external factors while other such industries were performing fairly well".

This definition means to say that a unit may be considered sick when it does not perform its primary functions such as production, sales, collection of debts dues and repayment of debts, dues, in the normal way for reasons beyond the control of management.

The Standing Committee on Industrial Sickness of the All India Small Scale Industries Board recommends that a small scale unit can be considered sick "if it incurred cash losses during the previous accounting year, is likely to incur cash losses in the current accounting year and either there is erosion in its net

worth to the extent of 25.0 per cent or more or any erosion in its paid up capital".

As noted in the above definition, broad indicators to detect sickness are financial ratios, surplus generated, utilisation of production capacity etc.

#### **Growth of Sickness :**

The problem of sickness is a country-wide phenomenon. At present it is very widely spread affecting almost all industrial groups over all the States in India. The incidence of sickness in Indian economy has been increasing at a significant rate in recent years. It has been clearly brought out by the figures given in Table 1.3.

It is clear from the (Table 1.3) information that not only the number of sick large units has increased rapidly during 1979 and 1991 but the average amount of outstanding bank credit has also increased from Rs.1358 crores to Rs.7976 crores.

The number of sick small scale units has increased from 20,841 in 1979 to 2,21,472 in 1991 and the outstanding bank credit in these small units has increased from Rs.269 crores to Rs.2792 crores during the same period.

TABLE 1.3

## GROWTH OF SICKNESS IN LARGE, MEDIUM AND SMALL INDUSTRIES FINANCED BY COMMERCIAL BANKS ALL INDIA

Year	Large and Medium Industries		Small scale Industries		Total No. of units	Bank Credit in Crores	SSI as % of total	
	No. of Units	Bank credit in Crores	No. of units	Bank credit in Crores			No. of units %	Bank Credit %
1	2	3	4	5	6	7	8	9
1979	1391	1358	20,841	269	22,232	1,627	93.7	16.5
1980	1401	1521	23,149	306	24,550	1,827	94.3	16.7
1981	1416	1666	25,342	359	26,758	2,025	94.7	17.7
1982	1622	2016	58,551	569	60,173	2,585	97.3	22.0
1983	1747	2372	78,363	729	80,110	3,101	97.8	23.5
1984	1832	2759	91,450	880	93,282	3,639	98.0	24.2
1985	1823	3200	1,17,783	1071	1,19,606	4,271	98.5	25.1
1986	1964	3568	1,45,776	1306	1,47,740	4,874	98.7	26.8
1987	1839	4459	2,04,259	1797	2,06,098	6,256	99.1	28.7
1988	2011	5564	2,40,573	2141	2,42,584	7,705	99.2	27.8
1989	2181	6441	1,86,441 *	2243 *	1,88,622 *	8,684 *	98.8	25.8
1990	2269	6926	2,18,828 *	2427 *	2,21,097 *	9,353 *	99.0	25.9
1991	2337	7976	2,21,472 *	2792 *	2,23,809 *	9,768 *	99.0	25.9

Source: Economic Survey 1992-93 and earlier Issues.

\*The figures does not include sick SSI units which are not traceable or not in existence.

It is clear from Table 1.4 that there has been tremendous increase in the percentage growth of sick large units and outstanding bank credit over the past 12 years. Taking 1979 as the base year the percentage of sick large and medium scale units has gone up from 0.7 per cent to 68.01 per cent in 1991 and the outstanding bank credit has also gone up from 12.0 per cent to 487.33 per cent during the same period.

In case of small scale units also the percentage growth of sickness and outstanding bank credit is very much alarming. The percentage of small scale sick units has gone up from 11.07 per cent to 962.67 per cent in 1991 and outstanding bank credit has increased from 13.75 per cent to 937.92 per cent during 1979 and 1991.

The incidence of industrial sickness in India has been wide spread covering different industries as well as different regions. Information on the industry-wise incidence of industrial sickness for the years 1976, 1986 and 1991 is provided in Table 1.5.

It is clear from the Table 1.5 that Engineering and Textile industries account for 58.6 per cent of sick units in 1976 with an outstanding bank credit of 62.4 per cent. Where as its share in sickness and

TABLE 1.4  
 PERCENTAGE GROWTH OF INDUSTRIAL SICKNESS AND OUTSTANDING BANK CREDIT  
 (1979 AS BASE YEAR)

Year	Large & medium scale industries		small scale units		Total sick units	
	No. of sick units	out standing Bank credit	No. of sick units	out standing Bank credit	Total No. of sick units	Total out standing Bank credit
	%	%	%	%	%	%
1979	--	--	--	--	--	--
1980	0.7	12.00	11.07	13.75	10.42	12.29
1981	1.79	22.68	21.59	33.45	20.36	24.26
1982	16.60	48.45	180.94	111.52	170.65	58.88
1983	25.59	74.66	276.60	171.00	260.30	90.59
1984	31.70	103.16	338.79	227.13	319.58	123.66
1985	31.05	135.62	465.15	298.14	437.99	162.50
1986	41.19	162.74	599.46	385.50	564.53	199.56
1987	32.22	228.35	878.83	568.02	809.04	284.51
1988	44.57	309.72	1054.32	695.91	991.14	373.57
1989	56.79	374.30	794.58	733.82	748.42	433.74
1990	63.12	410.01	949.99	802.23	894.49	474.86
1991	68.01	487.33	962.67	937.92	906.69	561.83

TABLE 1.5

## INDUSTRY - WISE DISTRIBUTION OF LARGE SICK INDUSTRIAL UNITS

Sl. INDUSTRIES No.		June 1976		June 1986		March 1991	
		Number of units	Outstanding Bank credit (Rs.in crores)	Number of units	Outstanding Bank credit (Rs.in crores)	Number of units	Outstanding Bank credit (Rs.in crores)
1	2	3	4	5	6	7	8
1.	Engineering & Electricals	85 (35.4)	241.27 (39.6)	175 (25.39)	788.10 (24.33)	306 (20.9)	1226.32 (24.02)
2.	Iron and Steel	-- (--)	-- (--)	38 (5.5)	166.36 (5.14)	113 (7.73)	333.10 (6.52)
3.	Textiles	56 (23.2)	150.92 (24.8)	186 (26.99)	1188.38 (34.53)	268 (18.34)	1427.54 (27.96)
4.	Chemicals	10 (4.1)	40.07 (6.6)	39 (5.6)	140.08 (4.32)	130 (8.89)	238.99 (4.68)
5.	Sugar	23 (9.5)	18.08 (3.0)	47 (6.8)	177.02 (5.47)	18 (1.23)	100.68 (1.97)
6.	Jute	25 (10.5)	55.82 (9.2)	43 (6.2)	199.58 (6.16)	37 (2.53)	161.37 (3.16)
7.	Rubber	4 (1.6)	17.44 (2.9)	16 (2.3)	127.17 (3.93)	21 (1.43)	81.49 (1.59)
8.	Cement	3 (1.2)	13.33 (2.2)	5 (0.7)	41.32 (1.28)	28 (1.91)	164.63 (3.22)
9.	Other industries	35 (14.5)	71.80 (11.8)	140 (20.3)	480.61 (14.84)	540 (36.96)	1370.45 (26.8)
Total		241 (100.00)	608.75 (100.00)	689 (100.00)	3238.64 (100.00)	1461 (100.00)	5104.57 (100.00)

Note : Figures in brackets indicate the percentage share to total.

Source : i) Reserve Bank of India on currency and Finance, 1976-77 and 1986-87

ii) Industrial and Export Credit Department, Reserve Bank of India -  
Report on currency and Finance, 1991-92.

outstanding bank credit has declined to 52.38 per cent and 58.86 per cent respectively in 1986. This percentage has further declined to 39.24 per cent and 51.98 per cent respectively in 1991. There has been a decline in the proportion of sick units and outstanding bank credit in chemical, jute, sugar and cement industries. But miscellaneous industries have noticed significant growth both in terms of sickness and outstanding bank credit as compared to 1976. Miscellaneous industries occupied 36.96 per cent of total sick units with 26.8 per cent of outstanding bank credit in 1991.

Information on State-wise distribution of large sick units is given in Table 1.6. It indicates that there is a significant regional concentration of industrial sickness. West Bengal and Maharashtra are the two states that account for nearly half of the total bank credit tied up in large sick units. Their combined share in total bank credit in sick units has increased from 49.0 per cent in 1976 to 50.53 in 1986 but declined to 40.41 per cent in 1991. The concentration of sick units and outstanding bank credit is mainly confined to 9 states as shown in Table 1.6. All the other states and Union territories have only 19.84 per cent of sick

TABLE 1.6  
STATE-WISE DISTRIBUTION OF LARGE SIZE INDUSTRIAL UNITS

Sl. No.	State/Union Territories	June 1976		June 1986		March 1991	
		Number of units	Outstanding Bank credit (Rs.in crores)	Number of units	Outstanding Bank credit (Rs.in crores)	Number of units	Outstanding Bank credit (Rs.in crores)
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	8 (3.18)	12.93 (2.0)	3.9 (5.66)	114.28 (3.53)	135 (9.24)	409.27 (8.01)
2.	Gujarat	26 (10.79)	48.96 (8.0)	66 (9.58)	332.20 (10.26)	154 (10.54)	584.22 (11.44)
3.	Karnataka	7 (2.9)	14.90 (2.4)	36 (5.22)	183.79 (5.68)	93 (6.36)	308.49 (6.04)
4.	Kerala	4 (1.7)	6.67 (1.09)	18 (2.61)	130.25 (4.02)	34 (2.32)	205.13 (4.01)
5.	Madhya Pradesh	6 (2.5)	12.42 (2.04)	26 (3.77)	96.27 (2.97)	48 (3.28)	126.39 (2.47)
6.	Maharashtra	60 (24.9)	144.98 (23.81)	151 (21.91)	898.54 (27.74)	301 (20.60)	1342.05 (26.2)
7.	Tamil Nadu	26 (10.8)	87.38 (14.35)	55 (7.98)	203.69 (6.29)	127 (8.69)	382.59 (7.49)
8.	Uttar Pradesh	26 (10.8)	21.58 (3.5)	72 (10.48)	315.80 (9.75)	94 (6.43)	255.46 (5.00)
9.	West Bengal	58 (24.1)	205.56 (33.77)	150 (21.77)	738.22 (22.79)	185 (12.6)	725.62 (41.21)
10.	Other States in Union Territories	20 (8.29)	53.37 (8.76)	76 (11.03)	225.60 (6.97)	290 (19.84)	766.33 (15.01)
	Total	241 (100.00)	608.75 (100.00)	689 (100.00)	3238.64 (100.00)	1461 (100.00)	5104.57 (100.00)

Note : Figures in brackets indicate percentage share to the total

Source : Reserve Bank of India - Reports on Currency and Finance 1976-77, 1986-87 and 1991-92.

The number of small scale sick units has increased from 20,841 in 1979 to 2,21,472 in 1991 and with an outstanding bank credit of Rs.269 crores to Rs.2792.04 crores during the same period.

Table 1.7 gives the industry-wise classification of sick small scale units and outstanding bank credit at the end of March, 1991. Other industries account for a major proportion of sickness with 72.11 per cent and 54.33 per cent in terms of sick units and outstanding bank credit.

Engineering and Electrical units account for 14.0 per cent of sick units with an outstanding bank credit of 21.88 per cent, Textile units have occupied third place in terms of sickness with 7.29 per cent while chemical units placed third in terms of outstanding bank credit with 10.10 per cent. This clearly shows that the concentration of sickness is mainly in other industries, Engineering & Electricals and Textile units.

Table 1.8 presents the State-wise classification of sick small scale industrial units and outstanding bank credit at the end of March 1991. It clearly indicates that 9 states have occupied 78.12 per cent of sick small scale units with 78.89 per cent of

**TABLE 1.7**  
**INDUSTRY - WISE CLASSIFICATION OF SICK**  
**SMALL - SCALE INDUSTRIAL UNITS AND OUTSTANDING**  
**BANK CREDIT AT THE END OF MARCH, 1991**

Sl. No.	Industry	No. of units	Amount outstanding (Rs. in Crores)
1	2	3	4
1.	Engineering & Electricals	30,998 (14.0)	611.08 (21.88)
2.	Iron and Steel	2,942 (1.32)	129.68 (4.64)
3.	Textiles	16,149 (7.29)	171.78 (6.15)
4.	Chemicals	8,203 (3.70)	282.15 (10.10)
5.	Sugar	384 (0.17)	14.09 (0.50)
6.	Jute	287 (0.17)	6.16 (0.22)
7.	Rubber	2,063 (0.93)	39.63 (1.42)
8.	Cement	737 (0.33)	20.35 (0.73)
9.	Other industries	1,59,709 (72.11)	1,517.12 (54.33)
Total		2,21,472 (100.00)	2,792.04 (100.00)

Note : Figures in brackets indicate percentage share to the total

Source : Industrial Export and credit Department, Reserve Bank of India.

**TABLE 1.8**  
**STATE - WISE CLASSIFICATION OF SICK**  
**SMALL - SCALE INDUSTRIAL UNITS AND OUTSTANDING**  
**BANK CREDIT AT THE END OF MARCH, 1991**

Sl. No.	States and Union Territories	No. of units	Amount outstanding (Rs. in Crores)
1	2	3	4
1.	Andhra Pradesh	29,487 (13.31)	236.64 (8.47)
2.	Gujarat	6,240 (2.81)	211.14 (7.56)
3.	Karnataka	12,858 (5.80)	173.26 (6.20)
4.	Kerala	17,973 (8.11)	159.42 (5.71)
5.	Madhya Pradesh	17,146 (7.74)	111.34 (3.99)
6.	Maharashtra	20,332 (9.18)	561.86 (20.12)
7.	Tamil Nadu	10,757 (4.85)	260.73 (9.33)
8.	Uttar Pradesh	27,477 (12.41)	230.94 (8.21)
9.	West Bengal	30,748 (13.88)	257.11 (9.21)
10.	Other States & Union Territories	48,454 (21.88)	589.60 (21.11)
Total		2,21,472 (100.00)	2,792.04 (100.00)

Note : Figures in brackets indicate percentage share to total

Source : Industrial and Export credit Department, Reserve Bank of India.

outstanding bank credit. West Bengal, Andhra Pradesh and Uttar Pradesh are placed first, second and third respectively in terms of sickness while Maharashtra, Tamil Nadu and West Bengal are placed first, second and third respectively in terms of outstanding bank credit.

**Viability Status :**

The economic survey 1992-93 has found 2,02,998 of the small sick units at the end of March 1991 as non-viable, 16,140 units as viable and the viability of 2334 units has not yet been determined<sup>12</sup>.

Out of the officially declared total sick units about 88.0 per cent are non-viable, 4.0 per cent are doubtful cases and only the remaining 8.0 per cent are said to be viable. As many as 99.0 per cent of sick units are in the small scale sector. A major portion of commercial banks funds are locked up in 1700 large industrial units. What is more disturbing is that during the period 1987-88 the average growth rate of sickness in the small scale sector was whopping 83.4 per cent while the bank credit blocked in the small scale sector grew at an average annual rate of 57.5 per cent<sup>13</sup>.

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12. The Economic Survey 1992-93, Government of India.

13. Economic Times, Dated 18-5-1989.

units with an outstanding bank credit of 15.01 per cent in 1991. The problems of industrial sickness is getting aggravated in states like Karnataka, Andhra Pradesh and Madhya Pradesh, while, this proportion has declined in case of Gujarat and Tamil Nadu. The state-wise and industry-wise information provided in these reports would help in proper diagnosis of the problem of sickness.

#### **Growth of Sickness in Small Industry :**

Sickness in small industry is rampant in recent years. There is a significant growth of sickness in small industry. Table 1.3 clearly exhibits the growth of sickness and outstanding bank credit in small industry over the years. Industrial sickness is growing at an annual rate of about 28.0 per cent and 13.0 per cent respectively in terms of number of units and outstanding bank credit. It is reckoned that as of today there are more than 2.00 lakhs sick units with an outstanding bank credit of over Rs.7000 crores. Nearly 29,000 units are added to the sick list every year i.e., about 90 units fall sick every working day. Almost every third or fourth small scale unit and every tenth unit in medium and large sector is sick or dying<sup>11</sup>.

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11. Economic Times, dated 18-5-1989.

The situation with regard to the viability of small units which are identified sick is even worse. In 1986, out of the total number of sick SSI units (1.46 lakhs), only 16.900 units (11.6 per cent) with outstanding bank credit of Rs.303 crores (23.2 per cent) were considered by the banks as potentially viable (Ministry of Finance, 1988). Thus almost 9 out of every 10 sick small scale units are found to be non-viable.

#### **Sickness in Small Scale Industry in Andhra Pradesh:**

The data regarding sick industrial units in Andhra Pradesh has not been collected and published regularly. Different departments and institutions adopted varied definitions in identifying the number of sick industrial units in Andhra Pradesh.

The Managing Director of the Andhra Pradesh State Finance Corporation (APSFC) reported that 2,000 units were sick by the end of 1977<sup>14</sup>.

The Director of the Small Industries Service Institute, Hyderabad observed that sickness in the small scale sector in Andhra Pradesh was between 10 to 15 per cent in 1981<sup>15</sup>.

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14. Jyothi Rani, T. Sickness in Small Industry Sector, Sandeep Publishing House, Warangal, 1985, p. 38.

15. Definance of G.O. by Public Units deplored, Visakhapatnam, Indian Express, Vol.L. No.13, 15th Nov. 1981.

The National Census of Small Industries (1972) identified about 727 units out of 8091 as sick in Andhra Pradesh<sup>16</sup>.

A survey conducted by Indian Institute of Economics, Hyderabad revealed that 873 units out of a total of 9181 died in Andhra Pradesh between 1974 and 1975<sup>17</sup>.

According to the Reserve Bank of India estimates small sick units in Andhra Pradesh were 1323 as on December 1982<sup>18</sup>.

Table 1.9 clearly presents the growth of sickness in large and small scale units and outstanding bank credit in Andhra Pradesh during 1984 and 1991. The number of sick large scale units have grown up from 27 in 1984 to 135 in 1991 while the outstanding bank credit has increased from Rs.52.82 crores to Rs. 409.27 crores

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16. Government of India, Report of the Census of SSI Units, Vol. I & II, De SSI, New Delhi, Jan. 1977.
  17. Mazumdar, H.K. A Nagt. Survey of Mortality of SSIs in South India, Hyderabad, IIE, 1977, p. 6.
  18. Ravi Kiratrai : Growing Spectre, The Economic Times, Vol. XXII, No. 51, 24th April, 1982.

**TABLE 1.9**  
**GROWTH OF SICKNESS IN LARGE, SMALL SCALE UNITS**  
**AND OUTSTANDING BANK CREDIT IN ANDHRA PRADESH**

Year	Large scale units		Small scale units	
	No. of units	Outstanding Bank credit (Rs.in Crores)	No. of units	Outstanding Bank credit (Rs.in Crores)
1984	27	52.82	5387	51.50
1985	37	103.10	8694	62.82
1986	44	126.09	13004	84.17
1987	70	119.09	19206	138.48
1988	90	179.92	25234	171.90
1989	121	344.69	21461	172.69
1990	122	386.06	30103	186.82
1991	135	409.27	29487	236.64

Source: Industrial and Export credit Department, Reserve Bank of India.

The small scale sick industrial units have gone up from 5387 to 29487 and the outstanding back credit has increased from Rs.51.50 crores to 236.64 crores during 1984 and 1991. It clearly exhibits that the percentage growth of sickness and outstanding bank credit is rampant in both large scale and small scale units in Andhra Pradesh.

**Causes of Sickness :**

Sickness is a complex phenomena. An industrial unit may become sick due to a number of factors which arise due to internal as well as external environment. The reasons may be political, industrial, economic and monetary. Ascribing sickness to a particular cause would be over simplification<sup>19</sup>. So the causes for industrial sickness are many and varied. Studies

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19. Joshi, V.K. Sickness in Small Scale Industries in Rajasthan, Paper presented at the workshop on Industrial Sickness Syndrome in India, Ahmedabad, 1988.

conducted by various organisations and researchers have revealed that sickness in industry may be due to the following reasons.

I. Project Deficiencies :

When a project is started, a lot of attention is to be paid to study and analyse the various aspects such as cost of the project, requirements of funds, location, availability of raw material, marketing and other requirement. If the basic business idea is not sound, any amount of efforts on that will be of no avail. The project may suffer due to the deficiencies in various agencies involved in its implementation. They may be:

- a) Inadequate and inaccurate estimate of the cost of project resulting in the under estimation of requirements.
- b) Inadequate arrangement of funds in relation to the requirements resulting in financial strain.
- c) Defective mode of financing i.e., long-term needs being financed with the short-term borrowings. Thus leaving the business at the mercy of the creditors.
- d) Trying to undertake a project beyond over capacity.
- e) Disadvantageous location hindering economic production and marketing.

- f) Inadequate and insufficient arrangements regarding land and buildings in relation to the requirements for establishment or expansion of the unit.
- g) Non-availability or irregular supply of raw materials impeding continuous production.
- h) Non-availability or inadequate availability of labour - specially skilled labour. Causing disruption in production or affecting adversely the cost of production and quality of production.
- i) Non-availability or insufficient availability of power, fuel, water and transportation, resulting in dislocation of production.
- j) Installation of technically defective or out-dated machinery or inadequate arrangements regarding their procurement having unhealthy impact on production schedule and its economies.
- h) Faulty product selection.

## II. Poor Management :

Many industries fall sick because of inadequate and poor management. Poor Management is due to lack of trained professional, experienced managers to provide dynamic leadership. Poor Management may be characterised by :

- a) Failure to define organisational goals, absence of forecasts and plans.
- b) Ineffective implementation of programmes in a framework of schedules and budgets.
- c) Ill - designed organisation structure leading to unclear division of work, responsibility and authority.
- d) Quality and timing of decision is poor.
- e) Inability to take risks - due to lack of entrepreneurship.
- f) Poor communications and low morale among employees due to inadequate motivation.
- g) Policies and procedures not clearly spelt out.
- h) Absence of performance standards and evaluation and correction of performance.
- i) Bad quality of products.
- j) Ineffectitve cutsomer services.
- k) Poor public image.
- i) Delay in implementation and delay in decision making etc.

### III. Administrative Deficiencies :

- a) Deliberate concealment of vital eg. pressure of the other banks for adjustment accounts, double financing on the same stock, mis-statements regarding qualities, quantity, value, ownership of goods etc.
- b) Diversion of funds to the unproductive channels.
- c) Removal of goods without proportional payment or removal of saleable goods leaving unsaleable goods in the stock.
- d) Inexperience, incompetence, lack of managerial and entrepreneurial qualities in the borrower.
- e) Lack of interest in the success of the project either due to the non-existence of sufficient staff or due to inherent nature or poor health of the borrower.
- f) Undue optimism leading to the under estimation of the risk.
- g) Dissentions and lack of team spirit amongst the partners.
- h) Untimely retirement of a competent member of the enterprise causing a dearth of talent available to the concern.

- i) Over cautious, over conservative approach leading to loss of opportunities.
- j) Past burden of debt culminating in heavy pressure on the borrower to delay and default in the payment of the instalment.
- k) Social obligations requiring heavy expenditure in unproductive purposes resulting in non-payment of the instalments of the borrower.
- l) The proprietor may give longer credits than customary in the trade, putting undue strain in resources.
- m) The proprietors may not tap trade credit available on reasonable terms.
- n) Borrowing on onerous terms which may relate to the interest, security, term of repayment etc.
- o) There may be imprudent drawings regardless of the future needs and plans of the business.

#### IV. Acts of Banks and Term Lending Institutions :

The following acts of banks and term lending institutions may be responsible for the sickness of the industry.

- a) Non-availability of required information from the borrower due to his illiteracy or maintenance of accounts or improper maintenance.
- b) Obtaining incomplete information.
- c) Failure to obtain credit report from other banks and institutions with whom the borrower was dealing hitherto.
- d) Failure to see books of accounts.
- e) Failure to make independent and diligent enquiries about the borrower.
- f) Over enthusiasm on the part of the manager to entertain new business inspite of the weakness of such proposition.
- g) Over conservation on the part of bank manager.
- h) Failure to keep a watch over credit worthiness and dealing of the borrower and the use of credit by him.
- i) Allowing the party to keep old stocks.
- j) Failure to keep a watch over credit worthiness and dealing of the borrower and the use of credit by him.
- k) Change in ownership and management going unnoticed.

- l) Failure to offer accommodation in right time and in right amount.
- m) Straining of the relations of the borrower with bank staff.

**V. Other Causes :**

a) Changing Policies :

Change in regulatory laws and government policy eg., restriction on the import of raw material used by the unit, restriction on expansion or possible use of installed capacity, sudden restrictions on the credit available from the banking sector.

b) Hike in Taxation :

If the rates of taxation are increased steeply, they may put an undue strain on the unit culminating in the failure of the unit ultimately. Sudden increase in excise and customs duties and import policies give a shock to the concerned industries. The changes in the decision of Railway Ministers was the sole cause in making the wagon building industry in Eastern India sick<sup>20</sup>.

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20. Nrupender Rao et al., Sickness in Industry Problems and Solutions, All India Management Association, New Delhi, p. 170.

c) Changes in Economic Condition :

If heavy depression overtakes an industry, it may cause wide spread failure including that of borrower of the bank.

d) Labour Problems ;

Continuous labour troubles, resulting in stoppage of production for a long time leading to retarded growth or suspension of activities.

e) Natural Calamities such as fire, flood, riots, war etc., will also be the cause for sickness.

f) Untimely death of the proprietor or other members managing and contributing substantially to the progress of the concern.

g) Continuous inflation disabling a person to maintain physical targets and causing losses.

h) Lack of Leadership :

Many industries are started by a group of persons. The management work is distributed among the partners, say one is looking after technical, another financial third commercial matters. Any dissensions among these partners eventually lead to a break up of their

association and rendering, the industry sick<sup>21</sup>.

i) Delays in the Government Departments for giving licences or renewing it or providing help.

j) Political interferences instigating the borrower not to pay the bank dues.

k) Intermediaries indulging in the corrupt practices and unjustly depriving the borrower of the full loan.

l) Social climate, allowing attitude to the borrowers in not paying the bank dues.

m) The attitude of other financial agencies regarding the recovery of their loans.

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21. Nrupender Rao, et al., Op. cit, p. 171.