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CHAPTER - I

INTRODUCTION

1.1 INDUSTRIAL SICKNESS : AN OVERVIEW : GLOBAL SCENARIO :

Industrial sickness is a global phenomenon found in different degrees in almost all countries. Because of its disastrous effect on the national economy and transmitting effect at the international level, the issue of industrial sickness or failure has been debated all over the world. The combined effect of oil price hike, energy crisis, industrial recession, inflation, labour unrest and fast change in technology have resulted in the large scale bankruptcies and closure of thousands of small and large industrial units all over the world. During the recent times it has grown in alarming proportions both in developed and underdeveloped countries. The problem of sickness in industries is very much prevalent in the industrially advanced nations like the US OF A, the UK and Japan. It is reported that much larger number of companies are falling sick. The Dun and Bradstreet Business Failure Record of the US OF A shows a preliminary reporting of 25,346 failure companies during one year. According to a recent study, one out of four companies listed in the U.S. stock exchange had turned sick during the decade 1967-1976. In the U.K. over 10,000 units are estimated to fail each year, one out of every five firms listed on the stock exchanges turns sick. The business
failure quadrupled between 1972-1982.\footnote{5}

Growing competition and ever-changing international economic environment often lead to high incidence of corporate failures in developed market economies. However, these economies have the resilience to absorb the economic disturbances brought about by the closure of industrial units.\footnote{6}

Indian Scenario

In developing economies like India, the socio-economic consequences of corporate failures are hard to absorb. The government cannot treat them as normal occurrences associated with the process of industrial development and diversification.

The growth as well as magnitude of industrial sickness in India have become a cause of serious concern. The gravity of the situation can be observed from Table. No. 1.1 on next page. It is observed that, while at the end of December 1980, the total number of sick units in the portfolio of commercial banks were 24,550 having blocked Rs.1808 crore towards total bank credit whereas as per the available data at the end of Mar 1994 the number of sick units estimated were 300,000 and the amount of total bank credit blocked was Rs. 15000 crore.\footnote{7}

Further, it can be also observed that 99 per cent of the total number of sick units were represented by small scale industrial sector. There are no documented details on the incidence of sickness in the medium scale industrial sector.
TABLE NO. 1.1

Position of Industrial Sickness: 1980 to 1994

<table>
<thead>
<tr>
<th>Year</th>
<th>Large Units</th>
<th>Medium Units</th>
<th>Small-scale Units</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bank</td>
<td>Bank</td>
<td>Bank</td>
<td>Bank</td>
</tr>
<tr>
<td>1980</td>
<td>409</td>
<td>1,324</td>
<td>992</td>
<td>178</td>
</tr>
<tr>
<td>1981</td>
<td>422</td>
<td>1,479</td>
<td>994</td>
<td>188</td>
</tr>
<tr>
<td>1982</td>
<td>444</td>
<td>1,791</td>
<td>1,178</td>
<td>226</td>
</tr>
<tr>
<td>1983</td>
<td>491</td>
<td>2,014</td>
<td>1,256</td>
<td>358</td>
</tr>
<tr>
<td>1984</td>
<td>545</td>
<td>2,330</td>
<td>1,287</td>
<td>429</td>
</tr>
<tr>
<td>1985</td>
<td>637</td>
<td>2,980</td>
<td>1,186</td>
<td>220</td>
</tr>
<tr>
<td>1986</td>
<td>714</td>
<td>3,287</td>
<td>1,250</td>
<td>281</td>
</tr>
<tr>
<td>1987</td>
<td>1,039</td>
<td>4,459</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1988</td>
<td>2,011</td>
<td>5,564</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1989</td>
<td>2,269</td>
<td>6,926</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1990</td>
<td>2,284</td>
<td>7,320</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1991</td>
<td>2,557</td>
<td>7,976</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1992</td>
<td>2,449</td>
<td>8,453</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1993</td>
<td>2,729</td>
<td>9,089</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1994</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

Note: 1) N.A. = Not Available
2) Figures Related to 1994 are Estimated by the RBI.
But from the pattern of observations above it is not out of mark to presume that the medium sector would by and large replicate the features of the small scale sector as described above. Thus sickness has spread to all types and sectors of the industrial economy of the country. The statewise data indicate that there was a considerable concentration of sick units and the amount of bank credit involved was much larger in states like Maharashtra, West Bengal as compared to others.

1.2 DEFINING THE PROBLEM:

Against an overview of the phenomenon of industrial sickness with reference to global as well as an Indian experience presented before, the researcher has defined the problem of the research as under.

For a developing economy like India, where there is an acute shortage of capital resources and large scale unemployment, tackling the problem of industrial sickness through prevention and/or cure becomes difficult. Further, the incidence of sickness creates a host of problems for the banking industry, thereby impairing their profitability and ability to recycle funds. Therefore, the government and its various agencies like the Reserve Bank of India, Financial Institutions and Nationalised Banks are extremely concerned about the growing incidence of industrial sickness and efforts are constantly being made by them, not only to prevent sickness, but also to rehabilitate the viable ones of the existing sick units. But the fact remains that the
sickness in industry especially in SSI and medium sector, is growing at an alarmingly faster rate. Industrial sickness is no doubt a part of the process of industrialisation since every investment decision is in the nature of business risk. But the rate at which the sickness is spreading and the manner in which these units are allowed to languish for years, cannot be considered as natural. The huge amount of funds of banks have been blocked in those sick units which otherwise could have been utilised profitably and ultimately would have resulted in increasing the percentage of "Performing Assets" with these banks leading towards more profitability.

However, considering the increasing size of "Non-performing Assets" and "Sick Units" particularly under the non-viable category having an additional burden of legal expenditure for recovery with number of nationalised banks it can be observed that steps taken so far towards identification of sickness and rehabilitation of sick industries have not been adequate and have not yielded the desired result. Nationalised banks being one of the largest purveyors of finance to the sick industries, more particularly to small scale industries, have to play a very crucial role in the rehabilitation task.

In the case of SSI units, the problem is two fold. These two basic problems are, the inability to detect sickness at the incipient state and incidence of large number of non-viable sick units with both the entrepreneurs and the banks.
saddled with idle Non-Performing Assets. On the background of above these banks are criticised at large considering the increasing spread of sickness in industries and comparatively low rate of rehabilitation, with high percentage of Non-Performing Assets.

Hence, to have knowledge about the factual picturisation, the researcher is interested to examine the working of these banks in rehabilitation of sick industrial units with special emphasis on the survey area selected. Also the study further probes into the different aspects covered in performing their role and answers to the questions like what and how the efforts are made by nationalised banks for the rehabilitation of sick industrial units? Which are the areas where they encounter any problems or difficulties? Are there any loopholes or lacunae in the policies, systems or procedures? and Is the role played by these banks towards rehabilitation of sick industries is on the right path? or Does it require modified approach to bring in for better results towards early rehabilitation of sick units and thereby reduction in Non-performing Assets? With a view to find out the answers to the aforesaid questions and to assess the reality of the criticism and also to penetrate the situation, an attempt is made by the researcher to study the role of nationalised banks in rehabilitating sick small and medium scale industries in an empirical manner.

While making an attempt to investigate the role played by nationalised banks the researcher has given more thrust on the period from 1980 to 1993 for obvious reasons that -
i) The intensity of industrial sickness was more prevalent as well as the percentage of bank credit blocked in sick industries was high during the said period which is evident from the figures presented in Table No. 1.1.

ii) It was also observed that though the problem of sickness was present in the country even before 1979, its ill effects on the economy, industry and banks were seriously realised at all levels from 1980 onwards. As such considering the significance of rehabilitation of sick industrial units from social and economic point of view, the Government as well as the RBI initiated different measures to control the situation. Thus, during the said period various enactments like Sick Industrial Companies Act, 1985, IRBI Act were introduced as well as number of guidelines were also issued to banks by the RBI for solving the problem of industrial sickness. The establishment of BIFR, AAIFR, IRBI also was a purposeful step in this direction.

iii) During the period mentioned above, the sickness has engulfed the small and medium industrial units with fierce rapidity.

iv) In the year 1992 the RBI introduced norms regarding Income recognition, Asset classification and Provisioning, Capital Adequacy for the banks which have a direct impact on assessing profitability of banks and blockage of funds in sick, doubtful, loss advances.
1.3 SIGNIFICANCE OF THE STUDY:

During the course of study the researcher has taken into account all facets of industrial sickness, right from the process of industrial development, occurrence of sickness in industries and the aspect of rehabilitation through nursing. The endeavour of research is to critically examine the role played by nationalised banks in rehabilitating sick small and medium industries with special reference to the Pune Region. In the process of study the researcher came in contact with sick unit owners and concerned bankers either personally or through questionnaire. The interaction made the researcher to realise -

i) the role played by nationalised banks in revitalising the sick industries in general and more particularly of the selected nationalised bank in the Pune Region.

ii) the lacunae or weaknesses in the policies working procedures or systems of the nationalised banks towards the rehabilitation of sick industries.

iii) to find the possible remedies to overcome the problems or difficulties faced by nationalised banks in their endeavour towards industrial rehabilitation.

It means, in the light of broader perspective of the aspect of rehabilitation of sick industries, the study would certainly be thought provoking for the government.

To elaborate further on this point it is argued that, the modifications suggested in policies, systems, procedures of banks would certainly have a favourable impact on improving the profitability of banks and ultimately the
recycling of funds resulting into industrial development.

Besides, the capital otherwise involved in such sick units could be released for the optimum utilisation for diversifying or expanding the line of activity of those units and thereby developing/increasing the size of a unit vertically or horizontally i.e. changing the product line or changing the size from small to medium/large, and thereby contributing to the Gross National Product of the country. It is in this sense that the study is significant to solve the problem of industrial sickness which the government is facing very severe at present. The significance of the study also lies in the fact that, in this research work emphasis is given more on bankers who provide finance to sick industries and also on eliciting the views of sick industrial unit owners who are the ultimate beneficiaries. The due weightage is given to this fact while suggesting modifications in the efforts towards rehabilitation of sick industries.

To sum up, the significance of this study lies in the following facts-

i) It highlights the policies and working procedures, systems of nationalised banks towards rehabilitation.

ii) It throws light on crucial role performed by the field offices and branches of the banks in rehabilitation.

iii) It initiates government to draw specific policies towards small and particularly medium scale industrial units.

iv) It emphasises the need for timely nursing and early revival of sick industries so as to avoid total closure of these units and thereby solving the problem of unemployment.
and wastage of manpower and other resources also.

v) It emphasises the need of releasing capital blocked in sick industrial units and for its optimum utilisation.

vi) It also explains how the timely rehabilitation of sick industrial units further boosts the industrial development.

vii) It is innovative as it takes into consideration the efforts made at grass-root level of the banks towards rehabilitation by focusing attention particularly on the 'Human Factor' involved in it and also in analysing the problems and difficulties faced by sick industrial unit owners.

1.4 OBJECTIVES OF THE STUDY:

The very aim of research is to make a critical study of the role played by nationalised banks in industrial rehabilitation more particularly in the Pune Region since the initiation of various measures and enactments, and implementation of RBI guidelines which started in 1979. In the process, an attempt has been made by the Researcher to make certain modifications in the systems and procedures applied by nationalised banks towards rehabilitation, which would ultimately benefit these banks in improving their profitability position and thereby making available more finance in extending to industries and for their further growth as well as development. Thus the objectives of the research are:

1) To study the measures adopted by nationalised banks
regarding rehabilitation of sick small and medium scale industries in Pune Region.

ii) To study the performance of the banks in rehabilitation of sick small and medium scale industries in the area in general.

iii) To examine critically the role played by the selected bank for rehabilitation of sick small and medium scale industries and thereby to study the efforts made towards release of funds blocked.

1.5 HYPOTHESIS:

The blockage of funds* of nationalised banks are partly attributed to sickness in small and medium scale industries. The efforts made towards rehabilitation of these industries by nationalised banks have to some extent contributed in releasing of funds so blocked.

However, on removal of certain limitations in policies, procedures and systems of nationalised banks, more favourable results can be achieved towards early rehabilitation and thereby enhancing the release of funds blocked.

(* - funds = credit extended)

1.6 METHODOLOGY:

This study is an empirical one and the field survey method and interview technique were used for the collection of required data on the problem from the sample respondents of the selected bank and sick unit owners. This proved to be "Primary Data" for the research. A considerable use of
Annual Reports of banks, other published material, books, periodicals, survey reports of the RBI were also made which was a source of "Secondary Data" for the research.

1.7 SAMPLING TECHNIQUE:

Considering the uniformity of RBI guidelines regarding nursing, rehabilitation and also the availability of time, personnel, difficulties in obtaining first hand information like disclosure of important and confidential statistics, reactions on the subject, etc., it was decided as a feasible preposition to select only one nationalised bank in particular for the survey and the information of other banks in general on the backdrop.

The selection of a specific bank, its branches and sick units for the study was of purposive nature which was made considering the following factors.

i) Taking into account the availability of time, convenience it was decided to select the bank which is having its central office, zonal, regional office and also sufficient number of branches as well as sick units in the region selected for the study.

ii) Hence it was practically easier and possible for the researcher to conduct a field survey and interviews at all levels of organisation (selected bank) and also to have meetings and/or discussions with the sick unit owners of the concerned branches.

iii) The selection of branches and their sick units
were made on the following broad features:

a) Location of the branch, i.e. industrial, non-industrial or commercial area

b) Business of the branch e.g. advances given and amount overdue, sticky and stagnant accounts, irregular accounts

c) Total number of sick units, and their agewise classification with type of their activity

d) Number of viable sick units (put under nursing and not put under nursing) and the amount involved

e) Number of SSI and medium scale sick units and the amount involved of the branch.

f) Number of sick units rehabilitated (nursed back to health) during the period.

1.8 TOOLS FOR DATA COLLECTION:

For this research study, three interview schedules were prepared and employed for the selected bank. One for central office of the selected bank and the other for its regional and zonal office and the remaining for its branches. In this study the data were collected by adopting survey method through personal interview. Besides, a 'separate schedule' was also prepared and employed for the concerned sick unit owners of the bank.

1.8.1 Schedule For Central Office

This schedule was applied for the central office of the bank for obtaining the information about policies of the bank, systems, procedures initiated, delegation of authority
and responsibility, functions of the Rehabilitation Department.

1.8.2 Schedule For Zonal - Regional Office

The second schedule was designed for controlling (Zonal-Regional) office level of the bank. This contained information relating to reporting/communication by the branches, coordination at different levels of management within and outside the bank, specific efforts made, problems/difficulties faced, systems and procedures, execution/implementation of policy regarding nursing/rehabilitation, authority and responsibility delegated etc., awareness of the developments in the area of the problem of industrial sickness, different enactments like SICA, etc. Apart from the above, a separate questionnaire was also sent to all other Zones/Regions of the bank (excluding Pune Region) with a view to have cross-section of information about the efforts made towards rehabilitation of sick industries by them.

1.8.3 Schedule For The Branches

The schedule for the branches sought information on general characteristics such as data pertaining to total advances, overdues amount outstanding in sick units etc. Also to have intimate knowledge about sick units found viable, sick units put under nursing/to be put under nursing, the information like constitution, size, activity of the unit, type of credit facility extended, outstanding balance, date of sickness, reporting about sickness by the branch to
its higher authorities, etc. was included.

In order to examine performance regarding rehabilitation of sick units of the branch, guidelines received from its higher authorities, reliefs/concessions and packages offered to the sick units, position of the accounts before and after nursing, units rehabilitated and under the process of revival, any other problems/difficulties like shortage of staff, lack of coordination etc. faced by the branch while attempting the function were included.

1.8.4 Schedule For Sick Unit Owners

The schedule covered the identification data of a sick unit, project implementation, reasons for sickness, viability study, assistance by bank towards rehabilitation, expectations from the bank, specific problems etc.

1.9 FIELD WORK:

Before conducting personal interview with the respondents (the bank and sick unit owners), the purpose of the study and the process of sampling were all explained clearly, so as to convince them about the fact that the data collection would in no way be utilised against them. Then after long persuasion and creating healthy atmosphere, the personal interview was carried on in a convenient manner. The field survey was done in October-December 1990 and October-December 1993 with a view to have a good amount of comparative/trend analysis, achievement of the sick units put under rehabilitation and performance evaluation of the bank.
towards revival of sick units.

1.10 FRAMEWORK OF ANALYSIS:

After the collection, the data were clearly scrutinised and transcribed before the actual commencement of the tabulation form. Mostly two way tables were prepared. In addition, simple and direct tables were also constructed where ever necessary. Not only the tables, but also charts, graphs and diagrams, curves etc. were also employed in this research study. Further, different analytical tools like Trend Analysis, Cause And Effect Analysis, SWOT Analysis were also applied to know the blind spots. It was made possible for the researcher to analyse the achievement of the selected nationalised bank in rehabilitation of sick industries through an investigative concern into real problems and by implications, greater concentration on the areas of weakness with a view to rectify the errors by offering suitable suggestions.

1.11 SCOPE AND LIMITATIONS OF THE STUDY:

The scope of this complex but retrograde phenomenon of industrial sickness is so wide, varied that it covers all types of units i.e. large, medium and small, all industries traditional and modern, public and private enterprises, all the Indian States and Union Territories. Also these sick units are financed/nursed by different financial institutions, nationalised banks, co-operative banks etc. It was however, not possible for the researcher to cover this
wide compass of the subject due to limitations and constraints of time, money and labour.

The core of the study is based on data collected from nationalised banks in Pune Region in general with special reference to a nationalised bank having its Regional, Zonal and Central office in Pune. Though the study intended to cover all nationalised banks in detail, the compromise had to be made because of the following difficulties and limitations.

i) Pune Region being the important area on the industrial and commercial map of Maharashtra, having large network of branches of nationalised banks and similarly maximum number of sick unit account holders, it was practically impossible to conduct field survey of all these branches of nationalised banks and their sick units considering the 'time factor'.

ii) In Pune Region, only one bank is having its central office which is at Pune and other nationalised banks are having only their regional, zonal offices. Because of this fact it was told by many banks to the researcher that they had to obtain permission from their respective higher authorities or from their central office which were either out of Pune or State of Maharashtra while disclosing statistics, important information etc. This was found to be very difficult and time consuming as the researcher had an intention to get the yearwise comparative statistics of sick units. Thus it was natural to go for a nationalised bank which is having its Central office, Zonal and Regional office
to get the authentic and required information for the study.

iii) Authentic statistics on the subject from other banks was not available specifically of the study region and there was a strong reluctance on the part of many banks (branches, regional/zonal offices) in disclosing the information or giving reactions on the subject as they felt that the information would be reported to Government or any other legal authorities or the higher authorities of the branches of the banks for rating the progress of a particular branch of the bank or the bank as a whole considering the rise in sick units, Non-Performing Assets. Also the recent instances of disclosing the confidential important information regarding nationalised banks in the newspapers, magazines sketching adverse picture of responding banks, created a fearful/doubtful atmosphere. So the information of other few banks had to be obtained only by informal/unstructured interviews with bank officials, going through their annual reports, monthly magazines or any other published material, which was a strong limitation.

iv) The response from sick unit owners was also not satisfactory. They also had a fear that the information given would be published publicly or it would be supplied to income tax/sales tax/central excise authorities or RBI or the higher authorities of their respective nationalised banks with whom they were banking. Thus after long pursuasion the researcher was able to get the information from very few sick unit owners of selected bank in the study region.
v) There appeared to be a strong communication gap within the bank/s regarding declaration of a unit as sick or its stage of viability or otherwise. In a present system, different levels like branches, regions, zones and above all its central office are involved for reporting, decision making about declaration of a sick unit, fixing a nursing programme etc. Because of this, the researcher found it difficult to correlate the statistical information obtained at different source levels, and to transcribe it in a required form.

vi) There were no documented details on the incidence of sickness in the medium scale units with many banks. Also in the half yearly statements furnished by banks to the RBI, the data relating to large and medium was clubbed together. Thus, to obtain separate data on medium scale units was extremely difficult.

1.12 WORKING DEFINITIONS OF CONCEPTS:

The definitions of some of the important concepts which are used in this study are given below.

i) Industrial Unit

It is an entity which is engaged in any of the activities like manufacturing, processing, preservation and servicing.8

ii) Small Scale Industrial Unit

a) Small Scale industrial unit is defined as an undertaking having an investment in fixed assets in Plant and Machinery not exceeding Rs. 60 lakhs.
b) Ancillary unit is defined as an undertaking having an investment in fixed assets in plant and machinery not exceeding Rs. 75 lakhs.  

iii) Medium Scale Industrial Unit

As per the Tiwari Commission Report (RBI) while a small scale unit is a unit as per the Ministry of Industry, Govt. of India's Policy Statement 'A Medium Scale Unit' is a non-SSI unit which enjoys credit of less than Rs. 1 Crore from the banking system.  

iv) Large Scale Industrial Unit

Large Scale Industrial Unit are those units individually enjoying aggregate bank credit of Rs. 1 crore and above from the banking system.  

v) Sick Industrial Unit

As per the definition given by the Reserve Bank of India 'A unit may be considered as sick if it has incurred cash loss for one year and in the judgement of the bank, is likely to continue to incur cash losses for the current year as well as the following year and which has an imbalance in its financial structure, such as current ratio of less than 1:1 and worsening debt-equity ratio'. (total outside liabilities to net worth)

As per the accounting definition of cash loss, it is the loss arrived at after charging interest but before charging depreciation. However, when it comes to sharing of cash losses, the accepted principle is that the loans granted by any institution to meet the cash losses of a unit should not
be utilised to pay the interest charges due to others. Accordingly, for the limited purpose of sharing, cash losses may be computed excluding the interest element also.\textsuperscript{12}

vi) Sick Small Scale Industrial Unit

Since the present research takes into account the period from 1980 to 1993, the following definitions which were modified, have taken into consideration.

A SSI Unit should be considered 'Sick' if it has (a) incurred cash loss in the previous accounting year and is likely to, continue to incur cash loss in the current accounting year and has an erosion on account of cumulative cash losses to the extent of 50 percent or more of its net worth and/or (b) continuously defaulted in meeting four consecutive quarterly instalments of interest or two half yearly instalments of principal on term loans and there are persistant irregularities in the operation of its credit limit with the bank while both the conditions (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either alternative (a) or (b) is satisfied in case of the tiny and decentralised sector units.\textsuperscript{13}

The definition of sick small scale industrial unit has been modified as under:

"A small scale industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding 5 accounting years". In the case of tiny/decentralised sector also a unit may be considered as sick if it satisfies the above definition.
However, in the case of such units if it is difficult to get financial particulars a unit may be considered as "sick" if it defaults continuously for a period of one year, in the payment of interest or instalment of principal and there are persistent irregularities in the operation of the credit limit with the banks.¹⁴

The definition of a sick SSI unit (including tiny, village and decentralised SSI units) has since been modified vide RFCD circular No. PLNFS.BC.99/06.02.31/92-93 dated 17 April 1993 issued to banks on the subject. The modified definition of a sick SSI unit is as follows:

An SSI unit may be classified as sick when:

i) any of its borrowal accounts has become a 'doubtful' advance i.e. principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding 2 and 1/2 years, and

ii) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years.

vii) Large Scale Sick Industrial Unit

Large Scale Sick Industrial Units are those sick units individually enjoying aggregate bank credit of Rs.1 crore and above from the banking system.¹⁵

viii) Medium Scale Sick Industrial Unit

Medium Scale Sick Industrial Units are non-SSI units which have been granted credit facilities of less than Rs.1 crore from the banking system.¹⁶
ix) Sick Industrial Company (Non-SSI)

According to the Sick Industrial Companies (Special Provisions) Act, 1985, 'Sick Industrial Company' means a medium and large (i.e. Non-SSI) industrial company (being a company registered for not less than 7 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 and the financial year immediately preceding such financial year. This definition does not cover, shipping companies and small scale industrial units/ancillary units. 17

x) Weak Industrial Unit (Non-SSI)

It is necessary to make a distinction between 'Sick Industrial Company' as defined in the Act (SICA) and other industrial units not covered by the Act, in whose cases also sickness will have to be monitored and rehabilitation efforts made for those found to be potentially viable. For the purpose reporting to the Reserve Bank of India and taking action in accordance with its guidelines, Industrial units in the later category (excluding SSI units), irrespective of their constitution, are termed as 'Weak' units. An industrial undertaking is defined as 'Weak' if it has at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years, a current ratio of less than 1:1 and suffered a cash loss in the immediately preceding accounting year. These units will include all categories of borrowers i.e. limited companies, partnership
firms, proprietary concern etc.\textsuperscript{18}

This revised definition is followed by banks since September 1989 in their reporting system.

xi) Nationalised Banks


xii) The term 'Role of Nationalised Bank'

The term has been defined by assessing the extent of services provided in rehabilitation of sick small and medium scale industries by these banks in the survey region.

xiii) Pune Region

In general - Under which the industries in Pune are well distributed/situated in and around whole Pune Metropolitan Region.

In particular - The Region for the study is that which is considered by the selected bank as its Pune Region (Pune City and Pune Rural) under which the maximum number of branches and their sick industrial units are included.

xiv) Rehabilitation

In general, it means restore to a normal life or good condition. In case of sick units the rehabilitation is to restore the capacity of sick unit to health by giving additional funds, concessions and other reliefs, if needed, so that its surplus generation capacity is improved.\textsuperscript{19}
xv) Non-Performing Asset

As per the norms prescribed by the Reserve Bank of India regarding "Income Recognition and Asset Classification" for the banks, an asset becomes non-performing when it ceases to generate income.  

1.13 REVIEW OF EXISTING LITERATURE:

The syndrome of sickness in industries has been persisting in India's economy since last two decades. Thus the need of the hour is to undertake concrete measures for their prevention and cure. In fact, the resultant effect of industrial sickness through loss of production, Capital and employment has brought much panic to the owners, the financial institutions and the government. In a country like ours, where unemployment problem is acute and both money as well as capital market is reeling under severe resource crunch, the gravity of the situation can hardly be over emphasized. Thus, all efforts should be made in this direction to combat the menace of sickness in industries. Otherwise, the very industrial base and structure erected in the country would collapse and threaten the entire economy. The insufficient literature and correct data on industrial sickness is one of the prime reasons for not taking a serious attempt in this direction. In a way some institutions basing on their past experience or on the suggestions of some studies have attempted to solve this problem in a limited way. But on the whole, the gravity of the situation remains the same. Several studies have been conducted in the past to
study and analyse the different aspects of sickness by the Industries Associations, Reserve Bank of India, Banks and Financial Institutions, Academicians and Researchers as well the Government. Some of the earlier attempts made are reviewed below.

A study team was constituted by State Bank of India headed by the then Chairman Shri J. B. Varashneya, in 1975\(^2\) to find out the reasons for sickness in small scale units, detection of sickness and its prevention and revival to restore them to health. The committee also analysed the major factors which may affect a nursing programme and made some suggestions like taking of well calculated rehabilitation decision, not to make delay in nursing programme, close monitoring of rehabilitated units etc.

A study group appointed by Industrial Development Bank of India (IDBI) in November 1976\(^2\) headed by Shri V. M. Bhide emphasised the need for close coordination and concerted action by banks and State Financial Corporation in rehabilitation of sick units.

The Indian Institute of Economics, Hyderabad conducted a survey in 1976\(^3\) of non-existing small-scale units in Andhra Pradesh, Kerla, and Karnataka with a view to identify the major causes of mortality and to suggest measures for reducing it. The survey suggested to streamline the operating procedure of nationalised banks so as to get timely facilities to small scale units.

The Vidarbha Industries Association made a study of 50
small units in 1976\textsuperscript{24} to deal with the problems and difficulties of small units relating to Finance, marketing etc. The study made specific observations out of which important were inadequate credit by commercial banks, stoppage of withdrawals by these banks when advances were called up by the Maharashtra State Financial Corporation (MSFC), the absence of effort on the part of most of the banks to study the causes of sickness. The study made some recommendations regarding rehabilitation of sick units by making in depth study of the unit.

A High Power Committee was constituted in 1978\textsuperscript{25} under the Chairmanship of the then Union Finance Minister, to discuss the problems of sick industrial units and the role of banking system in their rehabilitation. The Committee took important decisions which required action on the part of banks regarding review of functioning of special cells set up by these banks for dealing with sick units, collection of timely information of sick units etc.

A Standing Coordination Committee\textsuperscript{26} was constituted by Reserve Bank of India in September 1979. The committee examined the rehabilitation measures needed for an industrial sector as a whole including small scale industry where several units were affected by sickness. The committee arrived at consensus on certain issues regarding rehabilitation of sick units. A study\textsuperscript{27} of the working of "Sick Unit Cells" of commercial banks was made in 1992 by Dr. V.S. Kaveri of National Institute of Bank Management, Pune. Though this study revealed many important findings the same
were on the basis of study at corporate level of the banks and not of the field functionaires who in fact were actually involved in the process of rehabilitation.

By and large, most of the above studies were descriptive in nature and had made a thrust on reasoning part of sickness. Only few of them studied in detail the rehabilitation part performed by nationalised banks and other financial institutions. However, the same were of at national level or corporate level of the banks without going in deep by making a survey at field or branch level of these banks meeting directly to sick unit owners. In fact it is more important to conduct a study not only to assess the nature and quality of the role performed by nationalised banks, but also to examine the cause and effect relations between the relevant services and their goal achievement in rehabilitating sick small and medium scale industrial units in the industrially developed area like Pune where the percentage of sick units is also more. Hence the present research study explores this matter.

1.14 NATURE OF STUDY:

The present study has been classified broadly in three parts.

The first part initially deals with the industrial development and factors which emerge as impediment in the smooth process of industrial development which inter alia covers the problem of industrial sickness in general with
special reference to the Pune Region.

The second part takes into account the conceptual framework regarding industrial sickness i.e. from causes of sickness upto the aspect of rehabilitation. A review of RBI guidelines on the subject is also covered in this part.

The third part relates mainly to field work in the form of collection of primary as well as secondary data and its presentation thereof. As a part of study the Researcher has made discussions - interactions with the officials of nationalised banks other than the selected bank as well as sick unit owners in the study Region through "unstructured interviews". For a selected sample bank a "Structured Questionnaire" and "Interview" was applied as a tool for obtaining (first hand data) "Primary Data" on the subject matter.

The "Secondary data" was gathered from exhaustive readings of the Reserve Bank of India's journals, publications as well as various periodicals and books on the subject.

The detailed analysis of "Primary" and "Secondary" data led the Researcher to test the validity of "Hypothesis". Against the background of study analysed, certain suggestions have been made at the end.

Thus, for systematic study it was considered logical to divide the whole study into six chapters.
1.15 CHAPTER SCHEME:

CHAPTER - I INTRODUCTION:

This chapter initially presents the very problem under consideration and later discusses about the methodology adopted by the Researcher to investigate the problem. The chapter also includes the "Objective" and "Hypothesis" of the study, methodology, review of existing literature as well as the relevant working definitions, and limitations of the study.

CHAPTER - II: INDUSTRIAL DEVELOPMENT: AN OVERVIEW OF INDIA, MAHARASHTRA WITH SPECIAL REFERENCE TO THE PUNE REGION:

This chapter takes an overview of industrial development of India in general with special emphasis on the State of Maharashtra and the Pune Region. This interalia covers the role of nationalised banks in the development of industries especially the small scale and medium scale industrial sector. The present position of these industries referring to the problem of sickness is also described in the chapter.

CHAPTER - III: INDUSTRIAL SICKNESS: CONCEPT, CAUSES, INCIDENCE AND REMEDIES:

As the thesis is concerned with the study of the role of nationalised banks in rehabilitating sick industries, it was considered pertinent to create necessary conceptual background about "Industrial Sickness and the Aspect of Rehabilitation". Hence, this chapter presents conceptual framework of industrial sickness covering causes, signals - symptoms of sickness, incidence of sickness, and remedial
measures which include mainly the rehabilitation aspect.

CHAPTER - IV : PERFORMANCE OF NATIONALISED BANKS IN REHABILITATION OF SICK SMALL AND MEDIUM SCALE INDUSTRIES : A BACKDROP:

The Reserve Bank of India has issued guidelines to banks by setting certain broad parameters towards granting of reliefs, concessions to sick units. It has also identified major areas in the task of rehabilitation. These are explained in this chapter. On the background of these guidelines the performance of nationalised banks is reviewed by focusing attention specifically on the nationalised banks in the Pune Region.

CHAPTER - V : AN ASSESSMENT OF THE ROLE PLAYED BY A SELECTED NATIONALISED BANK IN THE PUNE REGION VIS-A-VIS THE SICK SMALL AND MEDIUM SCALE INDUSTRIAL UNITS:

Against the background of the study of the performance of nationalised banks towards rehabilitation of sick industries reviewed in the preceding chapter, a detailed analytical study made by undertaking a field survey of a selected nationalised bank and its sick units is presented in this chapter. A preliminary study about the profile of a selected bank, its organisational and operational framework towards rehabilitation is explained initially, which is followed by survey findings. The findings related to various vital aspects and areas regarding rehabilitation policies, procedures, systems of the bank are presented in part 'A'. The findings/responses of survey of sick unit owners of the bank are explained in part 'B'. The conclusions drawn and
suggestions offered are presented in part 'C' of this chapter.

CHAPTER VI: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS:

A review of the present research is presented in this chapter through a summary of all chapters.

This chapter also covers summary of survey findings and conclusions with recommendations made.
Select References : Chapter - I


7. Federation of The Indian Chamber of Commerce And Industry, Survey Report 1994


11. ibid, P. 16
13. ibid, P. 81.
16. ibid, P. 16.
18. ibid, P. 80.
26. ibid, P. 148.