While making the detailed study and analysis of the 'Financial Management of Sick Cotton Textile Mills of Northern India', it has been observed that the performance of public and private sector sick cotton textile mills during the decade (1974-75 to 1983-84) has been unsatisfactory. There was no recovery from sickness. Output was far below the production capacity and cost of production were too high. Delay and partial implementation of modernisation and rehabilitation programmes, increase in construction and machinery cost led to poor profitability and huge losses were incurred. Low realised value of the products, lack of control etc. all led to the poor performance.

As a cumulative effect of the above reasons, internal general of funds in the sick mills of the region was generally very poor. Besides this, even the banks and financial institutions did not come forward to their help. The mills could not take much advantages of a favourable scheme like the IDBI's soft loan scheme, because of the strings attached. That is why, on many occasions, the mills suffered severely for want of working capital.

Most of the conclusions have already been mentioned alongwith the analysis made in the concerned chapters, but with a view to present a more comprehensive and integrated picture of the findings of the study, the following are the conclusions.
CORPORATE SICKNESS

Various definitions of sickness have been given by various agencies. These definitions are conceptual, legal and monitoring. The monitoring definition given by R.B.I. and I.D.B.I. are more practical to identify sick units. On the basis of these definitions, a sick unit is one which has incurred cash losses on continuous basis for a specific number of years. The cash losses eroded the major proportion of net worth and current ratio became less than 1:1.

Under the prevailing conditions, it is desirable to lay more emphasis on prevention of sickness at an early stage instead of giving more importance to revival of sick units. It may, therefore, be suggested that on happening of the any one of the following conditions whichever is earlier, the firm should be considered as sick unit:

1. If continuous cash losses are suffered by the firm for a period of two years; or
2. If net worth has been eroded to the extent of 50 per cent or more whether because of cash losses or post-depreciation losses.

Causes of Sickness: After identifying a sick unit, it is necessary to know causes of sickness. The causes of sickness can be grouped into two categories viz. internal (controllable) and external (uncontrollable). The sickness in cotton textile mills of Northern region is a outcome of both the internal and external causes. Out of the total population of the sample,
about 90 per cent were of the viewpoint that both internal and external causes were equally responsible for sickness. It was difficult to measure the degree of their effectiveness.

An indepth study as regards the relative importance of different internal causes responsible for sickness in the region revealed that (1) Under utilisation of installed capacity, (2) Inappropriate financial structure, (3) Poor utilisation of assets and working capital management, absence of costing system and pricing policy, (4) Inadequate material management, lack of market research and absence of manpower planning were the most important internal causes of sickness. Further the study disclosed that wrong location was not a factor at all causing sickness in the region.

The market recession and labour unrest emerged as the most important external causes of sickness of cotton textile mills in the region. The non-availability of raw material, power shortage, strict credit policy and excessive taxation policy were the other important causes in that order. Further, the study exhibited that fear of nationalisation was not considered at all as external cause.

**Symptoms of Sickness**: Timely discovery of symptoms of sickness is very important. The broad outcome of the study as regards the relative importance of the symptoms of sickness is that (1) Profit fluctuations, stagnation and downward trend in sales, (2) Weak equity base and decrease in working capital, (3)
Inability to pay timely instalments of the principal and interest in respect of term loans etc., (4) Higher rate of rejection of goods manufactured by the company entailing higher discount and (5) Rapid turnover of the key personnel and sudden/frequent changes in management. These symptoms when left unattended resulted in sickness.

**Prediction of Sickness:** Industrial sickness produces substantial losses and unfavourable effects on general public, shareholders, creditors and financers. Since symptoms give a signal of sickness, it is, therefore, desirable to provide an early warning by predicting the potential business failure/sickness. Different researchers have used different models to emphasise the role of different financial ratios in identifying the sickness of companies in and outside India. For prediction of sickness in India only that model should be used, which is more relevant to our conditions.

An adequate and smooth flow of cash from operation is a necessity to avoid sickness. To predict sickness of any company, the focus should be on earning power of the company. Therefore, a thorough analysis of profitability of a company should be made. It is found in different empirical studies that profitability ratios are good indicators of warning against sickness as compared to balance sheet ratios.

The review of different models reveals that the model developed by Prof. L.C. Gupta on the basis of Prof. Beaver's model and multi-ratio discriminant model of Dr. R.A. Yadav are most
suitable under present circumstances to predict the sickness of the company. The rate of accuracy or failure/sickness of these models are much higher than the models of Prof. Beaver and Prof. Altman, over a period of five years prior to bankruptcy/closure of the company.

**FINANCIAL PLANNING AND CONTROL**

Financial planning has been identified as a crucial factor in the recovery of a sick mill. The more wise a financial plan, lesser would be the problems of redundance or shortage of capital. The three important ingredients of the financial plan are capital requirements, sources of capital and capital structure.

**Capital Requirements** : It has been found that the nationalised sick companies could not determine the amount required for its long term financial plans. Within a short span of ten years, the NTC(DPR) revised and increased its authorised capital five times while NTC(U.P.) did it every year from 1980 to 1982. Whereas there was a zero growth rate in the authorised capital and paid up capital of all the sick cotton textile companies of non-nationalised and private sector except Modi Spinning & Weaving Mill. Even in this company, it happened only once when the authorised capital was doubled in the year 1978-79.

Easy availability of funds from exchequer led to financial indiscipline in public sector sick companies. Funds were estimated and spent in the fashion as it was without cost. The height of irregularity regarding financial planning was observed in NTC(DPR) in the year 1982-83 when the issued capital of the
company was more than its authorised capital. The company received the money against equity from the exchequer before getting its authorised share capital revised.

Another outstanding feature observed was the frequent conversion of outstanding balance of loans into equity share capital in the public sector companies. The NTC(DPR) converted five times its outstanding balance of loans into equity share capital while in NTC(UP) it happened four times during the period of ten years of study. Whereas there was no instance of conversion of loans into equity share capital in the case of non-nationalised but controlled and managed companies and private sector companies.

Estimation of funds required for capital expenditures was also poor in public sector sick companies. A big proportion of capital outlay for modernisation and expansion programmes remained unimplemented because of over-estimation of the amount of funds required for the programmes, and consequent non-availability of funds. The financial planning was this much inadequate in some of sick companies that these could not estimate the exact amount required for their short term needs. It was found that even routine payments were not made on time and unnecessarily thousand of rupees were lost as penalties, fines and interest because of poor short term financial planning.

Source of Capital: The study has indicated that there is a clear cut demarcation in the methods of financing of capital of public
sector and private sector sick textile companies. The central and state governments are the major contributors of share capital of public sector sick mills, the whole of the capital was contributed by these governments and no efforts were made to raise funds from non-state sources. Whereas in the case of private sector sick mills and managed and controlled sick mills, there was no contribution from the governments towards their capital. The whole of the capital was arranged from either private sources or specialised financial institutions.

It has further been observed that the funds in the shape of loans more easily available to public sector sick mills as compared to private sector sick mills. Once the sick mill was nationalised then there was no dearth of funds. The government invested huge funds as loans that too as unsecured loans to rehabilitate the said mills. Later on, whenever it was felt that the burden of loans has increased on the nationalised sick mills, it was converted into equity share capital. At the same time, if the sick mill was from private sector, the funds were not easily available to it. Even the desired estimated amount for rehabilitations/modernisation schemes were not supplied either by banks or specialised financial institutions. Wherever it was supplied, it was preferred by these institutions that it should be a secured loan only.

**Capital Structure**: The analysis of financial data revealed that the capital structure of mills which were not yet nationalised but managed by NTC(UP) Ltd. was the worst among all the sick
cotton companies. The worst average debt equity ratio 31.75 times was that of Luxmi Rattan Mills followed by 18.92 of Atherton Mills. Further these were the only two mills, which could not provide any coverage to interest charges for all the years of their operation. Among the two subsidiaries of NTC Ltd., the capital structure of NTC(DPR) was more balanced than NTC(U.P.). The NTC(DPR) adopted a proper capital structure policy, which is considered more suitable for a sick company. The company improved its ratio from 3.03 times in 1977 to 1.52 times in 1984. The capital structure policy adopted by NTC(U.P.) was not a desirable and proper policy for sick company. The company's debt equity ratio increased by 289 per cent from 1975 to 1984. The interest coverage ratio of both the companies was not good at all. The NTC(DPR) could provide coverage for two years only whereas NTC(U.P.) for one year only.

It has been observed that the situation was comparatively better in mills of private sector than public sector. Among private sector sick mills, the debt equity ratio of Madan and Modi were well under the required standard as compared to Birla and Elson. In case of Birla mills, the ratio was not under control for most of the years whereas Elson lost the grip on the ratio during the last three years of the study. It has also been found that the performance of sick companies of private sector surpassed the public sector's sick companies in providing coverage against interest charges. All the private sector companies provided interest coverage for four years of
more than four years except Modi mills. The Birla mills provided the coverage for maximum number of years of its operation i.e. 6 years out of 7 years, which was the highest among all the sick companies covered under the study. The highest interest coverage among sick companies i.e. 8.46 times in 1978-79 was again from a private sector company - Elson Cotton.

Financial Control: The finances of an enterprise are controlled through the techniques of 'Internal Financial Control' and 'External Financial Control'. Budgeting and budgetary control, internal audit, management information system and accounting and financial reporting constitute important tools of internal financial controls whereas external financial control comprise external audit, efficiency audit and legislative control. The study revealed several deficiencies in the use and application of financial control tools. A sound system of budgeting was altogether missing in the sick cotton textile mills. A wide variation between the budgeted estimates and actual performance was found in majority of the sick mills. Because of poor standard of budgeting and budgetary controls, the sick mills could not establish proper input and output relationship. Specially in public sector sick mills, budgets were generally prepared to obtain funds from the government exchequer rather than to exercise financial control.

The internal audit too lacks the refinements of an efficient system. It looked to be a formality because in most of the sick
companies, the suggestions for improvements were not forthcoming from the internal auditors. Wherever, if any discrepancies and deficiencies were pointed out by the internal auditors, due attention was not given to remove them. The state of accounts in the selected sick companies was not satisfactory. The study revealed lack of consistency and delay in preparation of accounts. The MIS too revealed several weaknesses. The poor application of techniques of internal financial control led to poor financial management.

External financial control was comparatively not so bad as internal financial control. Regular audit was conducted in all the sick mills for all the years by an independent qualified auditors except an initial lapse of non-conduct of audit for first three years in case of public sector sick mills. The 'Efficiency Audits' were not conducted at all. No inbuilt system was involved to check the wrong decisions of management.

**FIXED ASSETS MANAGEMENT**

Proper allocation of funds among fixed assets and their efficient utilisation are the two important aspect of management of fixed assets which require extreme care and prudence. Fixed assets index, density of operative fixed assets and fixed assets turnover are the most potent tools employed to evaluate the composition, structure and effective utilisation of fixed assets respectively.
The analysis of financial data revealed that the majority of sick companies were not able to manage fixed assets effectively and efficiently. The faulty management of fixed assets in these sick cotton textile mills left its bad and serious impact on the efficiency, cost of production and profitability. It is, evident from the computation of various ratios, such as net fixed assets to total assets, net operating fixed assets to total assets, net operative fixed assets to total assets excluding fictitious assets and fixed assets turnover.

**Fixed Assets Index:** It was observed that the average percentage of net fixed assets to total assets, net operative fixed assets to total assets and net operative fixed assets to total assets excluding fictitious assets of all the sick mills of public sector except NTC(DPR) were below the average percentage of these ratios of sick cotton textile mills of Northern India (in aggregate). Whereas the percentage of the same ratios of all the sick mills of private sector were above the average percentage (in aggregate). In addition to this, the average percentage of net fixed assets to total assets of sick mills of private sector were also above the average percentage share of net fixed assets to total assets of textile industry in India. The best fixed assets index came from Elson mills whereas the worst index of fixed assets was noticed in Atherton Mills. Out of all the sick mills covered under study, the fixed assets index was very poor in case of both managed mills of NTC(U.P.) i.e. Atherton mills and Luxmi Rattan Mills.
The adequacy of operating fixed assets in total assets is the basic necessity to increase the earning capacity of the enterprise. But in sick cotton mills of northern India it was found that the average percentage of operative fixed assets in total assets was not satisfactory. No doubt, the operating fixed assets had increased in these mills but the increase was not adequate as required for modernisation and replacement or expansion of fixed assets of these sick mills. The share of fictitious assets in total assets had an alarming increase in most of the mills.

Regarding the constituent units of NTC(DPR) and NTC(U.P.), it was found that there was no consistency in index of fixed assets. The situation was very poor in Ajudhia mill of NTC(DPR) and Lord Krishna Mill of NTC(U.P.). Only four constituent mills of NTC(DPR) viz. Dayalbagh, Kharar, Shree Bijay and Suraj have adequate proportion of fixed assets.

**Density of Fixed Assets**: The analysis of financial data led to the conclusion that in operating fixed assets the proportion of land and building, plant and machinery and other assets remained as it is, as it was. The plant and machinery got the first position in composition of net operating fixed assets followed by land and building and other assets. The average proportion of plant and machinery was highest in Atherton (89%) followed by NTC(DPR)(85%) and NTC(U.P)(83%). These only three mills were having the percentage of plant and machinery above 80 per cent.
of operating fixed assets. The share of land and building was more than 20 per cent only in three mills i.e. Elson(27%), Madan (22%) and Modi (21%) while the share of other assets was less than 6 per cent for all the sick mills except Modi Mills, where it was 9 per cent. There was a common pattern regarding the composition of operative fixed assets of constituent units of NTC(DPR) and NTC(U.P.). The plant and machinery ranked first in importance. Land and building constituted the second major item of operative fixed assets. The other assets did not constitute a very important item of the constituent units.

**Fixed Assets Turnover**: In majority of sick mills, the turnover of net operating fixed assets was far from satisfactory. The management of sick mills could not make better use of their fixed assets. The proportionate increase in sales could not be matched with the proportionate increase in investment in fixed assets. The power crisis, market recession, labour unrest and production of controlled cloth were the common and main factors responsible for low fixed assets turnover.

The efficiency in utilisation of operating fixed assets decreased in case of all the constituent units of NTC(DPR) and NTC(UP). The performance of Lord Krishna deteriorated badly. Because of poor utilisation of assets, the difference between computed and actual values of sales were substantial.

**WORKING CAPITAL MANAGEMENT**

The study of working capital management in selected sick mills has revealed that the mills failed to manage their working
capital properly. The imprudent management of working capital resulted into huge losses in these sick mills.

Working Capital Position: Taking the sick mills individually, it was disconcerted that the working capital position of these mills deteriorated at a fast speed. Except MSWM, all the mills of both public and private sector had experienced negative net working capital during the period covered under study. The worst working capital position was noticed in Atherton mills and Luxmi Rattan mills. In Luxmi Rattan mills there were working capital deficits for all the years whereas in Atherton mills out of nine years of operation the mills had negative working capital for eight years. Both the mills were managed and controlled by NTC U.P.) Ltd. In majority of mills, the speed of increase in current liabilities was faster for most of the years as compared to speed of increase in current assets. The maximum speed of increase in current liabilities was found in Elson mills.

The analysis of financial data of constituent units of NTC (DPR) and NTC(UP) revealed that a wide variation prevails in the size of working capital. The level of working capital also fluctuated from year to year in all the constituent units. There was no consistency at all in any one of these units. The majority of the constituent units had experienced negative net working capital. Edward unit of NTC(DPR) and Bijli unit of NTC(UP) had working capital deficits for the maximum number of years.

During the period of study from 1975 to 1984, inventories constituted a major proportion of current assets for all the
mills except Atherton mills where receivables were on the top. The highest proportion of inventories to current assets were noticed in MIL. In composition of current assets, inventories were followed by receivables and cash balances. While in current liabilities, sundry liabilities formed a major proportion. The highest portion of sundry liabilities to current liabilities was found in MSWM.

The composition of current assets and current liabilities of constituent units of NTC(DPR) and NTC(U.P.) shows that inventory was a major item of current assets. Receivable occupied the second place in relation to current assets whereas cash did not constitute a very important item. The sundry liabilities dominated in comparison to provisions in the total current liabilities.

**Liquidity Position**: The analysis of liquidity position of selected sick cotton textile mills gave a chaotic condition. The current liabilities were consistently heavy in relation to the current assets, which resulted into a poor current ratio. The analysis confirmed the fact that even after making a huge investment in current assets, the liquidity position had not been strengthened because of non-generation of cash due to recurring losses. With a rapidly shrinking current ratio, the relationship between current assets and the current liabilities in the majority of mills became very unfavourable. The acid test ratio proved the presence of high proportion of inventories in the composition of current assets. This built up of inventory created the shortage of cash. Wherever a little favourable current ratio
was found in any mill, it turned into poor acid test ratio especially in Madan Industries and Elson Cotton Mills. This trend exhibited a further reduction in financial strength.

On the top of these adverse conditions, the unreasonable proportions of inventories in current assets in relation to net working capital added fuel to fire. In most of the years in the majority of sick mills, the inventories were greater than working capital. The inventory to working capital ratio confirmed the results of acid test ratio that the management of sick cotton textile mills have lost the grip on working capital. A fatal combination of inadequate or a deficit in net working capital and low realised value of goods produced, deteriorated the working capital turnover ratios.

The liquidity position of constituent units of NTC(DPR) and NTC(UP) was not at all satisfactory. The Suraj mills of NTC(DPR) and Lord Krishna mills of NTC(UP) had worst current ratio position. Whereas poorest acid test ratio was noticed in Kharar mills and Suraj Mills of NTC(DPR) and Bijli mills and Lord Krishna of NTC(UP). The ratio of inventory to working capital in majority of the constituent mills was either more than one or negative. Overtrading was a common feature among the constituent mills. In nutshell, the mills have lost their grip on working capital.

Sources and Application of funds: The majority of the sick cotton textile companies to a great extent were dependent on long term borrowings. Whenever the funds did not flow in from this main
source, the funds were made available by decreasing the working capital. During the period of study, two nationalised companies (NTC(DPR) and NTC(UP)) and one private sector company (MSWM) could manage the funds by issuing share capital. In nationalised companies, share capital was arranged from budgetary grants of Government of India without any much difficulty. But to collect funds from public at large by a sick company of private sector was a big achievement. Only a few sick companies had funds from operation as a source. These were Birla (BCM), Elson(ECM) and Madan (MIL). But even these companies could not generate funds from operations after 1980 except a little to the extent of 3.85 per cent during 1981 in ECM. The BCM and ECM were the only two sick companies, which made the sale of investment as a source of funds. While the assets were sold only by ECM during the earlier years to arrange the funds.

On application side of funds, the analysis revealed that a sizeable proportion of funds was eaten up by the operational losses. The utilisation of funds to meet the operation losses was the major item specifically in NTC(DPR), NTC(UP), AM, LRCM and MSWM. Since the sick companies during the period of study undertook rehabilitation/modernisation/expansion programme which required a huge investment in fixed assets. So the second important item was the purchase of fixed assets. Whatever a little was left after meeting the operational losses and acquisition of fixed assets was used for working capital increase. There were a few instances when the companies used the funds to
repay long term borrowings. If at all the funds were used for this purpose, it was only in case of companies from the private sector. Due to heavy operating losses suffered by the companies, the majority of sick companies in most of the years neither paid any dividend/tax nor purchased any short term investment during the period of study.

On the whole, regarding working capital management, the performance of sick units of private sector were comparatively better than nationalised sick units under NTC. Both the non-nationalised units under the control and management of NTC(UP) are facing a horrible situation. Only a miracle can save these mills, which is difficult to occur under the present circumstances.

PRICING AND PROFITABILITY

Pricing: The inference is that pricing policy of nationalised sick mills has significantly been marked by a total absence of resources-oriented pricing. The operations were carried on to promote all the way general welfare, even they forgot to recover the costs. The analysis of financial data revealed that in majority of companies the cost of sales was much higher than the sales. The prices charged were so much unremunerative that what to talk of cost of sales even cost of production was not recovered in majority of the nationalised sick companies and managed mills. In public sector sick mills, the pricing function is highly centralised and diffused over the textile ministry, the holding company and the directors of subsidiaries. At the time of fixation of prices the intelligence reports about the market conditions were not given due weightage.
Results of Operations: Earning of profit or avoidance of loss is a proper indicator to measure the efficiency and revivability of a sick mill. The earnings before depreciation, interest and taxes, profit/loss of the year, net earnings or deficits after making adjustments and appropriations, accumulative deficits, per day loss/profit are some important levels to analyse the results of operations.

The results of operations of sick companies depict a rising trend in losses from operations. There was no sign of recovery. The losses were on the peak in the latter years of the study. The losses were piling up year after year. The paid-up capital was virtually wiped off. The managed and controlled mills under NTC (U.P.) miserably failed in avoidance of losses. The nationalised mills performance was also not good at all. The private sector mills to some extent earned profits at the first level i.e. EBDIT. The year 1979 was the best operating year for sick companies.

Among the constituent units, Ajudhia mill and Lord Krishna mill were the deficits leaders of NTC(DPR) and NTC(UP) respectively. These were on the top to enhance the deficits of the respective corporation for the majority of years. Shree Bijay mill was the only constituent unit which either contributed minimum deficit or reduced the deficits of NTC(DPR).

Profitability Ratios: The profitability ratios at different levels of earnings relative to sales, capital employed and net worth are the real tests of the economic success or failure of
a sick company. Each ratio has been computed for critical examination of profitability of sick cotton mills speaks about the increase or decrease in operational efficiency of these companies from different angle.

A critical assessment of the six ratios calculated that is, gross profit/loss as percentage to sales; earnings/deficits before depreciation, interest and taxes as percentage of sales; Earnings/deficits before interest and taxes as percentage of sales; Earnings/deficits before depreciation, interest and taxes as percentage of capital employed; Earnings after taxes as percentage of capital employed; and Earnings after taxes as percentage of net worth revealed that performance of private sector sick mills was comparatively better than the nationalised sick mills. The managed and controlled mills virtually collapsed.

Regarding avoidance of losses in the sick cotton mills of northern region, the various ratios calculated from the viewpoints of the concerns and shareholders depict the same trend namely, that with the nationalisation of sick cotton textile mills in 1974, there was a decline in deficit after 1976. The position somewhat improved with elimination of losses during 1979 and 1980. But since 1981 there was a reverse trend. The last three years from 1982 to 1984 were the worst years.

**Constraints in the Revivability:** A comparative study of profitability of sick cotton mills under the two sectors clearly
showed that there was little recovery from sickness. The health of these sick mills further deteriorated during the period of study. The major constraints which could be assigned for the present losses were low sales turnover per spindle, high proportion of salary and wages relative to turnover and equally high percentage of interest charges in relation to turnover.

Regarding sales per spindle all the sick mills were struggling for survival. Only two constituent units of NTC(DPR), and a private mill had entered the safe zone by the end of 1984. The similar results were depicted by the ratio of wages and salary to sales, and interest charges to sales. Only two constituent units of NTC(DPR) and two private mills were able to cross the desired norms for good health of a company in terms of wages and salary. While five constituent units of NTC(DPR), two constituent units of NTC(UP) and two private sick mills were in a position to control the financial expenses as per prescribed norms. Ajudhia mills and Suraj mills both constituent units of NTC(DPR), Muir mills and New Victoria mills both constituent units of NTC(UP), Atherton mills and Luxmi Rattan Mills both managed and controlled mills of NTC(UP), and Elson mills a private sector mills failed to achieve the prescribed norms for all the three variables. Atherton mills and Luxmi Rattan Mills were the only sick mills, which were still under coma. These mills could not come out of danger zone.

ROLE OF FINANCIAL INSTITUTIONS

The financial institutions are engaged in a noble task which is very much needed in the present socio-economic conditions of
the country. Introduction of the soft loan scheme (now modified soft loan scheme for modernisation) and setting up IRCI (now IRBI) were the two noteworthy measures taken by the government to provide assistance for rehabilitation of sick units. Institution-wise, set up of 'Rehabilitation Finance Division' in IDBI and 'Problem Cases Department' in IFCI were the outcome of sincere efforts made by the all India financial institutions in the same direction.

The review of measures taken by the financial institutions to rehabilitate the sick units revealed that the results did not matched with the efforts and the amount of resources spent by these institutions. The financial institutions concentrated their programmes for rehabilitation of sick industrial units in a few states. The states of northern region were not offered its due share. The growth rate of sanctions and disbursement tends to reveal that there was an inverse relation between them. The number of sick industrial units is increasing at alarming rate.

Under IDBI's rehabilitation assistance, southern region availed the maximum assistance of Rs. 83.4 crores whereas northern region received the minimum assistance of Rs. 47.7 crores only out of the total disbursement of Rs. 280.6 crores by the end of June, 1984. Maharashtra was the main beneficiary state claiming Rs. 59 crores alone which was more than the total assistance of all the states of northern region. Textile continued to be on the top in the terms of loan outstanding, followed by paper and engineering IFCI and ICICI also contributed its share to revive the sick industrial units but relatively less than IDBI's contribution.
IRCI (Now IRBI) is a unique financial institution, which is engaged exclusively in the task of preventing and removing industrial sickness. Under IRCI assistance, the eastern region was the major beneficiary, it consumed 78 per cent of the total assistance disbursements. Further it was observed that in the eastern region, state of West Bengal alone accounted for 75 per cent of the total assistance disbursed in the country. The whole of northern region received only 6 per cent. The growth rate in sanctions was higher during the recent period (1978-84) than during the earlier period (1971-78). Industry-wise, rubber industry claimed the highest proportion of the assistance sanctioned and disbursed.

The soft loan scheme did not make a satisfactory progress. One of the most important reason for slow progress seems to be inability of the sick units to comply with several conditions imposed by the financial institutions. Of the soft loan assistance to the five selected industries, cotton textile was the major beneficiary claiming more than 51 per cent and 57 per cent of the assistance sanctioned and disbursed respectively followed by Engineering (24% and 20%), Jute (14% and 12%), Sugar(6% and 8%) and cement (5% and 3%), Whereas the amount sanctioned to each unit for an industry was the highest in jute industry (₹ 6.27 crores per unit). Cotton textile per unit sanctioned amount was the least (₹ 1.42 crores per unit) which was even less than the average each unit assistance sanctioned during the period of study.
State-wise Maharastra, Gujarat and Tamil Nadu were the main beneficiaries states claiming 20 per cent, 19 per cent and 18 per cent respectively. The individual share of these states was more than the cumulative share of all the states of Northern region which was only 13 per cent of the total disbursements. While region-wise, western region availed the maximum share.

Suggestions

Many suggestions may be offered to tone up the financial management of sick textile mills. To begin with, it may be suggested that an unbalanced capital structure, high debt equity ratio should be corrected and avoided. It is unreasonable to burden the sick mills at the initial stage with a highly leveraged and unbalanced capital structure and to let them groan under the dead weight of ever mounting loans.

2 Skillful financial management during sickness is important. Wherever there is existence of unusable fictitious intangible and unproductive assets or huge debit balance in profit and loss account, the financial reconstruction should be made to off load burden of external liabilities not matched by existing productive assets.

3 Reduction of the par value of shares, reduction in rates of interest, postponement of maturity of debt, conversion of debt into equity and concessions by the government in the form of reduction or waiving of indirect taxes are certain measures which can be implemented under financial re-organisation scheme.
4 The losses of sick mills of public sector should be written off at the very first stage treating them as an unavoidable cost for running the sick mills, rather than allowing it to accumulate in the books.

5 The policy making machinery, both at the holding company and the subsidiary head office level of NTC should be overhauled and streamlined. Judicious centralisation or decentralisation of activities and functions, proper and regular channels of communication, induction of expertise at advisory level, identification of individual authority and accountability should be streamlined in the financial administration. Besides regular financial audit, efficiency audit should be implemented.

6 The system of managing and controlling the sick mills by the subsidiary corporation of NTC should be stopped, because it resulted into huge losses in Atherton mills and Luxmi Rattan mill.

7 Since a considerable capacity is not utilised in the industry, it is therefore, suggested to freeze the manufacturing capacity to give more financial assistance for higher utilisation of installed capacity.

8 Partial modernisation of plant and machinery has created a big problem. In so many nationalised sick mills, spinning section has been modernised but weaving is, as it was. So the quality of yarn has improved but quality of cloth was very poor. It is suggested that modernisation of machinery in parts should be
avoided. Crash modernisation programme, primarily aimed at removing bottlenecks and hurdles from the path of production should be formulated and implemented expeditiously.

9 The sick mills should be allowed to sell their surplus land to generate funds for modernisation. Such a sale should be arranged under the supervision of a tripartite committee consisting of representatives of government, management and shareholders in case of private sector.

10 To streamline the working capital management of sick mills, it is suggested that a material management department should be established at every sick mill. The norms both for the consumption and stocking of various type of material should be laid down and in no case these should be violated. The sales department should be activated to reduce the overstocking in finished good inventory. To give a relief to sick mills, all the government requirements of textile should be purchased from these mills.

11 The sick mills should improve their credit and collection policies by introducing an intelligent system in regard to credit investigation. Enough care should be exercised, while selecting the traders, about their business integrity and financial soundness. Payment on due date should be a binding condition. Timely collection of dues from customers should be considered as important a function as effecting a sale. The planning and control of cash should be strengthened and centralised.
12 For tackling the immediate problem of liquidity, additional working capital to sick mills should be provided on soft terms. The selective credit control should not be applicable to sick mills. Ad-hoc increase in limits should be made. Relief on payment of loans and interest should be given. Norms recommended by the Tandon and Chore Committee should be stayed till the health of mills is restored.

13 Recoupment of losses incurred by the units of subsidiary corporations of NTC should be made on monthly basis. Maximum period for recoupment of losses should not be more than 3 months. Presently current losses go on accumulating for a period of 6 months, which created a big imbalance in the working capital of the mill.

14 Corporate objectives of N.T.C. should be clearly defined. Is it employment? Is it social welfare? Is it profit? Is it rehabilitation of sick units, or all the four?

15 If the profit is not a objective even then losses should be avoided at all cost. Cost of production should be reduced. To cut a huge bill of wages and salary, as a measure of rationalisation, voluntary and early retirement schemes should be introduced and implemented with the help of concessional finance from banks.

16 To reduce the cost of production, man hours lost due to strike and unduly high rate of unauthorised absenteeism should be checked. The productivity linked reward system at least till the sickness of the unit is not removed should be introduced.
17 Cost of all inputs should be substantially brought down. The government should devise a measure to supply raw materials components and spare parts and power continuously and at reasonable prices to sick mills.

18 The sale price should at least cover the cost of sales. In any case, the price policy should not lead to losses, if it cannot generate funds. The government should keep in mind while drafting price policy for the products of sick mills that price structure should ensure avoidance of losses and at the same time also serve the socio-economic interest.

19 Top priority should be accorded for rehabilitation of sick mills, which are found viable by proper techno-economic studies. Those, which are found unviable should be allowed to die a natural death, instead of the government taking them over. An in-depth study of the weakness and strength of each viable mill should be undertaken and a comprehensive five years corporate plan should be formulated.

20 The funds should be carefully and judiciously invested in order to achieve quick and clear improvements in operations of the viable mill. The mill which could not be revived even after a period of ten years of nationalisation should be closed. The study reveals that Lord Krishna mill, a constituent unit of NTC(UP) should be closed immediately.

21 The financial institutions should set up a joint team of persons of different skills (technical, financial, legal, economic and managerial etc.) to undertake region-wise and
and industry-wise sickness assessment studies at a regular interval.

22 Timely action should be taken whenever incipient sickness is observed as the problems can be nipped in the bud. It is not wise to wait for a mill to become sick before thinking of providing financial support.

23 Regular reports should be called for and variance are to be studied against budgets. Deviations are to be analysed to their causes and remedies for the maladies are to be prescribed so that goals set can be achieved. Regular system of inspections for all sick mills should be introduced.

24 There is need to establish three additional regional institutions on the lines of Industrial Reconstruction Bank of India (IRBI), one each for northern, western and southern states, to take care of the credit and allied problems of the sick units.

25 A scheme should be devised to support the viable sick units financially and to ensure that the sickness does not spread further merely for lack of funds. The right of conversion to the full extent of the loan should also be available to the financial institution in case of mismanaged sick units.