

INDUSTRIAL SICKNESS: SYMPTOMS, CAUSES & THEIR PREVENTION

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Abstract :

Growing incidence of sickness has been one of the persisting problems faced by the industrial sector in India, substantial amount of loanable funds of the financial institutions is locked up in sick industrial units causing not only wastage of resources but also affecting the healthy growth of the industrial economy. As per the extant guidelines, a Micro or Small Enterprise (as defined in the MSMED Act, 2006) may be said to have become sick, if. Any of the borrower account of the enterprise remains NPA for three months or more. OR. There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year. The criterion enables banks to detect sickness at an early stage and facilitate corrective action for revival of the unit.

Keywords: *Industry, Micro and Small Enterprise, Economy, Bank, Problem.*

INTRODUCTION

Growing incidence of sickness has been one of the persisting problems faced by the industrial sector in India, substantial amount of loanable funds of the financial institutions is locked up in sick industrial units causing not only wastage of resources but also affecting the healthy growth of the industrial economy.

The total bank credit locked up in sick/weak units increased from Rs. 13.134 crores as at end of March 1993 to Rs. 25,775 crores as on 31st March, 2001. These included Non-SSI sick units, and SSI-sick units. Out of the total bank credit locked-up in sick units, Non-SSI sick units accounted for Rs. 21,270 crores, i.e. 82.5 percent of total, and SSI-sick units Rs. 4,505 crores. Keeping in view the gravity of the situation, an attempt is made in this paper to present a threadbare analysis of the factors responsible for the problems of industrial sickness in India along with remedial measures.

DEFINITION OF SICK UNIT

According to Ministry of Micro Small & Medium Enterprises :

As per the extant guidelines, a Micro or Small Enterprise (as defined in the MSMED Act, 2006) may be said to have become sick, if. Any of the borrower account of the enterprise remains NPA for three months or more. OR. There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year. The criterion enables banks to detect sickness at an early stage and facilitate corrective action for revival of the unit.

In other words, The sick unit has been defined to be a company where the accumulated losses at the end of any financial year result in erosion of 50% or more of its peak net worth during the immediately preceding five financial years.

SYMPTOMS OF INDUSTRIAL SICKNESS

According to the 4th All India MSME census symptoms of sickness are as follows :-

- ❖ Unit incurring financial loss / Not being able to produce above break-even points.
- ❖ Unit incurring continuous losses.
- ❖ Unit having negative equity.
- ❖ Unit having excess of current liabilities over current assets.
- ❖ Unit making defaults in payment of principal sums with interest.
- ❖ Unit having low capacity utilization.
- ❖ Unit having worsening debt-equity ratio.
- ❖ Some of the important symptoms / signals revealing sickness of industrial units identified by RBI (2002) are briefly presented here :-
- ❖ Frequent return of cheques issued by the party/ in ability of the party to promptly honour the bills drawn on them.
- ❖ Non-submission of stock statements / financial institution, irregularity in maintenance of bank accounts.
- ❖ Lack of healthy fluctuations in CC account.
- ❖ Frequent request for excess grant / enhancement of limits / adhoc limits without corresponding increase in sales.
- ❖ Low / declining capacity utilization.
- ❖ Poor current ratio.
- ❖ Decline in technical efficiency.
- ❖ Decline in the quality of product manufactured or service rendered.
- ❖ Delay or default in the payment of statutory dues, such as provident fund, Sales tax, excise duty, employees state insurance, etc.
- ❖ Lack of healthy movement of stocks and excessive/ missing level of inventories / stock inspection.

FACTORS RESPONSIBLE FOR SICKNESS OF SMALL UNITS.

A review of the various studies regarding small-scale units reveals the followings :-

- (i) Lack of Management expertise.
- (ii) Non-observance of the basic principles of business management.
- (iii) Under utilization of capacity caused by lack of working capital, lack of demands and non-availability of raw materials.

Table -1**Cause-wise distribution of New Projects in Default.**

	No. of Project	% of the Project	% contribution
A. Management incompetence	92	41.2	43.9
(i) Lack of good Management.	36	16.1	22.2
(ii) Poor implementation	56	25.1	21.7
B. Production Problems	81	36.4	31.9
(iii) Non-availability of raw materials	53	23.8	13.5
(iv) Shortfall of working capital	3	1.4	7.2
(v) Labour trouble	12	5.4	5.7
(vi) Technical Operational Problems	13	5.8	5.5
C. Marketing and Mics. Problems	58	22.4	24.2

Source – Reclassified from S.S Srivastava & R.A. Yadav, Management and Monitoring of Industrial sickness (1986), p. 15

- (iv) Easy approval of small-scale units by the government without proper screening of project proposals that assessment of viability of the project is not made with adequate care, more especially with regard to financial viability.
- (v) The dead units dependent mostly on their own funds.
- (vi) Non-payment by the “principals” to the ancillaries.

CAUSES OF INDUSTRIAL SICKNESS

One of the important finding of the several studies is that management is the main cause of industrial sickness in India.

S.S. Srivastava and R.A. Yadav after the analysis of 223 projects which became sick between June 1970 and December 1983 came to the following conclusions about causes wise sickness:

From the data given in Table-1, it is obvious that management incompetence contributes about 44 per cent of industrial sickness. In some cases, fraudulent and dishonest management suck certain units dry and then throw them in the lap of the Government of takeover. The policy for sick industrial units has, therefore, to provide, whenever necessary, for sanctions against inept or fraudulent management. The government has, therefore, become selective and discreet in take over.

GOVERNMENT POLICY ON PREVENTION OF INDUSTRIAL SICKNESS.

A survey of industrial sickness in India reveals that the state did not take prevention action before the enterprises close down or became so seriously sick that they had to be admitted to the emergency ward'. But it must be clarified that but for reasons of accident, natural calamity or some other very powerful external factor, sickness does not develop all of a danger signals till the day comes when the enterprises collapses.

The main elements of the government policy are as follows :-

1. The government should make suitable arrangements for monitoring and detecting industrial sickness at an early stage.

2. The financial institutions should jointly set-up a group of professional directors who would be full time employees of the institutions and who could be nominated on the Board of Directors of the companies with doubtful management competence or integrity and in which the institutions have substantial stake. In case, the group finds that the management has acted in a patently incompetent manner or has indulged in Malpractices, the same management will not be extended financial assistance, until the management is changed.
3. The government should set-up a screening committee to make recommendations relating to sick undertakings on the following lines :-
 - (a) It may recommend the take over of the management of a sick undertaking with the clear understanding that the units will not be handed back to the same management.
 - (b) In case, the financial institution or the state government recommended that the unit should be taken over, or where the takeover of the unit is considered necessary in national interest, the management should be taken over.
 - (c) After takeover of the management, the unit could be sold as a running concern or alternatively, a reconstruction of the undertaking could also be done. Such reconstruction will include wiring down the share values, conversion of Loans to equity, acquisition of shares by the Government, constitution of new board of directors, etc.
 - (d) The merger of the unit with a public sector undertaking could also be considered. The main thrust of the policy was to reduce the incidence of sickness in industry and dishonest management.

Since lack of modernisation has been identified as an important cause for industrial sickness the two funds – the Textile Modernisation Fund and the Jute Modernisation Fund-were set-up in 1986 to help the revival of sick units in cotton textiles and jute since then industries respectively and they have been making commendable efforts for the purpose.

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