

# Small Scale Industries: Impact of Sickness in India and Remedial Measures

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**Abstract:** The Small Scale industries are the gate way to take the economic output of a country to the next level as they have the means to promote agro based products. Though they require a huge load of raw materials they do not require a lot of contribution for its existence. Their sickness will result in the slowdown of economy which slows the growth of any country. Hence, it is nothing short of a necessity to ensure their well-being. The bankers who provide loans to Small Scale Industries will suffer from non-performing assets and would have their liquidity affected. This paper analyses the causes of sickness among small scale industries and offers some remedial measures to address the problems prevailing to prevent sickness.

**KEYWORDS** - Sickness, Non-performing Assets, Outstanding, Liquidity.

## INTRODUCTION

Small scale industries significantly contribute to Gross Domestic Product in various sectors of the economy. Small scale industries seldom use automated machines and are high labour intensive, generating employment opportunities among unemployed youth. Small Scale Industries are pivotal for the economic growth of any county and their ability to exist in Urban and rural environments gives them a clear advantage of ease of finding human resources and makes them the perfect for the development of any part of a country. SSIs contribute to about 40% of industrial gross production of India. For every 4 lakhs invested they are capable to produce 10 lakhs worth of goods and hence a good platform for investment across India. The number of SSIs increased from less than 9 lakhs to more than 29 lakhs in just a span of twelve years from 1988 to 2000 owing to India's 'ease of doing business' policies. The SSI contribution towards exports is non negligible as they have contributed to about 35% in direct exports and contributes to about 15% in indirect exports.

After liberalisation and globalisation, small scale industries faced competition from various multinational companies in addition to the local competitors. The numbers of small scale units were closed and many other small units were sick. Several committees were appointed to help revive the units. The intensity of measurement of estimating the sick small scale industries was given by Kohli committee such as

- Continuous decline in gross output compared to the previous two financial years
- Delay by more than 12 months in repayment of loan taken from institutional sources and
- Erosion in the net worth to the extent of 50 percent of the net worth during the previous accounting year.

Third all India census reported that only 58.48 per cent units are working and 41.52 per cent closed down (Palaniappan, 2010) The ratio of sick units to small units reached to 1:5 in the year 1988 (P.M.Mathew, 2009). SSI units have to face challenges from Multi-national Companies and other large enterprises (D.S.Khanka, 2010). Out of the 1, 67,980 units only 3,626 units were identified as viable (B.H.Damji, 2002).The number of SSI units affected by sickness and the outstanding loan amount given by banks from 2006 to 2013 is given below.

**Table 1.1** Sick Small Scale Units and Outstanding Loan Amount

| Year | Sick Small Scale Units | Changes Over Previous Year | Outstanding (in Billion) | Changes Over Previous Year |
|------|------------------------|----------------------------|--------------------------|----------------------------|
| 2006 | 1,26,824               |                            | 49.81                    |                            |

|         |             |                     |           |                    |
|---------|-------------|---------------------|-----------|--------------------|
| 2007    | 1,14,132    | -12,692<br>(-10.01) | 52.67     | 2.86<br>(5.74)     |
| 2008    | 85,187      | -28945<br>(-25.36)  | 30.82     | -21.85<br>(-41.48) |
| 2009    | 1,03,996    | 18809<br>(22.08)    | 36.19     | 5.37<br>(17.42)    |
| 2010    | 77,723      | -26273<br>(-25.26)  | 52.33     | 16.14<br>(44.6)    |
| 2011    | 90,141      | 12418<br>(15.98)    | 52.11     | 0.22<br>(-0.42)    |
| 2012    | 85,591      | -4550<br>(-5.05)    | 67.9      | 15.79<br>(30.3)    |
| 2013    | 2,20,492    | 134901<br>(157.61)  | 124.42    | 56.52<br>(83.24)   |
| AVERAGE | 1,13,010.75 |                     | 58.28125  |                    |
| STD     | 46,475.496  |                     | 28.996916 |                    |
| C.V.    | 41.124846   |                     | 49.753422 |                    |

**Source:** RBI Reports

The number of SSI units affected by sickness and the outstanding loan amount given by banks from 2006 to 2013 is fluctuating and is ranging from 77,723 to 2,20,492 and the outstanding loan amount ranges from 30.82 billion to 124.42 billion. The average number of sick industries during the study period is 1, 13,010.75 with 41 per cent co-variance. The average outstanding amount is 58.28 billion with 49.75 per cent variance.

### IMPACT OF SICKNESS

Industrial sickness has a severe negative impact on the economic system of any country. Banks lent money to the sick industries which then resulted in non-performing assets. The increasing trend in non-performing assets affects the liquidity of the banks. Increasing debt-equity ratio and very high fluctuations in the financial position are the symptoms of industrial sickness. The sales of the units are below the break-even point and as there are no internal reserves and for further running of the business, these industries rely on outside sources for running of business which is not easy during sickness. Moreover, employees who have been working in an industry having sickness try to join in some other organisation since they lack job security for the forthcoming period resulting in the labour turnover that further increases the severity of sickness.

### POLICIES TO HELP SICK INDUSTRIES

The RBI from time to time appointed various committees to try and reform the sick SSIs as their decline is a cause of concern. Measuring the extent of sickness of the Small Scale Industries and the necessary information on sickness of the SSI was collected during the Third Census

- The once flourishing but recently downtrodden SSIs will be considered by the government to be sick industries. Government has constructed many policies for the revival of these industries to ensure economic growth.
- The government in 1981 announced guidelines to the state governments and ministries to identify the sick industries within their perspective curfews and help them improve and coordinate for remedial action. Banks providing assistance to these industries were asked to ensure the proper utilization of those funds. Further the banks were asked to submit the sick industries lists to the Industrial Reconstruction Bank of India if term-lending institutions were not involved.

- In 1982 the 'margin money' scheme was announced under which the viable sick industries were entitled to receive a sum margin varying from 1000 to 20000 rupees.
- In 1984 an act of the parliament changing the Industrial Reconstruction Corporation of India (IRCI) was changed to Industrial Reconstruction Bank of India (IRBI) in order to provide special attention to the sick industries with a capital base to 50 Crores which could go up to 200crs.
- The government in 1985 the government separated the sick industries from the ambit of Monopolies and Restrictive Trade Practices Act, 1969 through an act of parliament and the banks were instructed to identify the sick industries in their early stage of sickness.

## SUGGESTIONS

1. Studies revealed that 71.6 per cent of the registered SSI units and 84.1 per cent of the unregistered units stated that lack of demand was the reason for the sickness followed by marketing problems. Before starting the business units small scale industrialists have to conduct market/ economic feasibility study for estimating demand. Then, the production will be based on the demand eventually industrialists can sell the products without any delay consequently working capital is generated to meet the further demand of the business.
2. Small scale industrialists might add some values additionally to their products. By showing the uniqueness of their products, the market can be captured forever.
3. Government has to follow the small scale industrialists by giving training consistently. In which the small scale industrialists update themselves with recent development and would get help from the government in their time of need.

## CONCLUSION

Small scale industries are the boon for any developing and under developing economy since unemployment problem and poverty can be eradicated through these units. Even though it is a challenging task to run a small business in a competitive world in the global era, SSI units stand in the market by creating their own identity. Small scale industrialists with the co-ordination of government and other established institutions meant for developing SSI units prevent sickness before it occurs. This helps the bankers to function in a better way without affecting liquidity and profitability. All the resources given to small scale industrialists will be utilised for the economic development by preventing sickness and for increasing the Gross Domestic product subsequently.

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