CHAPTER - II

INDUSTRIAL SICKNESS: DEFINITION, CAUSES, GOVERNMENT APPROACH & APPROACH OF BANKS

1. INDUSTRIAL SICKNESS - DEFINITION

1.1 According to Dixit, V. (1985) the term "Industrial Sickness" was coined during the late sixties and early seventies when a large number of industrial concerns were closed in West Bengal. This was the first sign of endemic sickness, although localised in a particular area. Prior to this period, there were cases of individual business failures. Such failures were either unnoticed or abandoned, mostly in affluent countries and to some extent in India. According to Patil, R.H. (1985), in spite of universal concern about industrial sickness, there seems to be lack of unanimity about the definition of sick units. The criteria which generally determine sickness in large scale industry are equally applicable to small scale units.

1.2 According to one school of thought a sick unit is one which works below 20 per cent of installed capacity. Others are of the view that a unit is
sick when it operates at a lower than the break-even point. An expert Committee has stated that a sick unit is one which fails to generate an internal surplus on a continuous basis. A sick or an unhealthy unit is a unit which does not assure a reasonable return on capital and reserves after providing for depreciation and reasonable remuneration for the Proprietor or working Partners. Reasonable returns on capital and reserves may be determined on the basis of the Bank Rate at 9 per cent and the lending rate of commercial banks at 15 per cent per annum. A return on capital reserves at 12 per cent per annum is after providing for depreciation considered reasonable.4

1.3 The study team of State Bank of India, in its Report on Small Scale Industries Advances 1975 (for advance of Rs. 2 lakhs), defines a sick unit as "one which fails to generate an internal surplus on a continuing basis and depends for its survival upon frequent infusions of external funds."5

1.4 The Reserve Bank of India defines a sick unit as "one which incurs cash losses for one year and which 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 a worsening debt-equity ratio (total outside liabilities to net worth).  

1.5 One more definition of sick units has been taken up as "only such units may be considered sick in which major part (say 50 per cent), of its equity and reserves are eroded by cash losses. In the case of entrepreneur scheme, a sick unit is one in which there are no owned funds; a depletion of 15 per cent in the total working funds of those units may be considered indicative of sickness."  

1.6 In 1972, the State Bank of India, defined a sick unit as "a unit which is chronically irregular and required a study to evolve a nursing programme and close follow-up." This definition is based on the conduct of Cash Credit Account. This definition becomes incomplete if the Cash Credit account does not reflect the major business transactions of the firm.  

1.7 A sick unit has also been reckoned as a unit which does not perform its primary functions - production, sales, collection of debts in the normal way for
reasons beyond the control of the management. A persistent irregularity in working capital advances (not on account of inadequacy of limits) for a period of 12 to 18 months or stoppage of production for a sufficiently long period of time can lead to an unit's sickness.

2. CAUSES OF INDUSTRIAL SICKNESS

2.1 For the adoption of any effective action with regard to industrial sickness, it is essentially necessary to understand the causes of sickness. The causes of sickness in an industry may be categorised broadly into internal and external causes. Again, the major internal causes may be divided into structural and operational.\textsuperscript{10}

2.2 Structural causes are: under-estimation of project cost leading to overrun and delay in project completion, defective, plant and machinery, outdated technology, selection of wrong project site, etc.\textsuperscript{11}

2.3 Operational causes are:
- inexperienced/incompetent management,
- dissensions among the promoters,
- delays in financial arrangements - faulty financial planning,
faulty product-mix,
lack of timely modernisation/renovation,
unscrupulous management policy,
unsatisfactory industrial relations, etc.  

2.4 The external causes most of which cannot be anticipated are:

sudden and wide variation in market demand,
shortage of critical raw material and inputs like power and fuel,
changes in Government policies affecting market demand and cost of production,
recession cycle in the economy, etc.  

2.5 Sometimes, the seeds of sickness are in some cases sown, right at the implementation stage. These are evident when the Management shows unwillingness to comply with principle disbursement conditions and starts implementing the project in haphazard manner without proper organisation to supervise the project implementation. Delay in project implementation for one reason or other leads to cost overruns which in turn, may lead to sickness. Undue delay in submission of periodic progress reports or furnishing incomplete and inaccurate information in such reports are possible indications that the Management is
2.6 There are positive indicators of incipient sickness when the project is in operation. Some of them are:

a) increase in receivables or decline in orders suggesting market resistance,

b) increase in payables suggesting possible shortage of funds,

c) unduly large stock of finished products,

d) dissensions among promoters creating bottlenecks in smooth functioning,

e) large turnover in top executives,

f) poor labour relations,

g) irregular payment of dues to the lenders.

2.7 The roots of sickness are also found in inefficient management, lack of proper supervision or control over the project and in some cases on the part of the promoters to further their selfish interests at the cost of the unit. According to the information supplied by the concerned banks to the Reserve Bank of India in December 1979, 52 per cent of the units had fallen sick because of deficiencies of management.
Units in the Chemical and Jute and Paper industry also reported inefficient management. Many units become sick either due to the management's unwillingness to implement the suggestions of the lenders in time or due to circumstances beyond their control.  

2.8 The internal factors causing industrial sickness are:

a) choice of wrong location,
b) over-estimation of capital,
c) over-estimation of demand,
d) escalation of costs on account of delay in implementation of the project,
e) faulty management,
f) lack of proper financial and cost control methods, and
g) inadequate plant maintenance and replacement.  

2.9 The external factors causing industrial sickness are:

a) Government policies as regards production, distribution and pricing,
b) inadequate availability of raw materials,
c) shortage of power,
d) transport bottlenecks,
e) scale of public sector investment which acts as catalyst,

f) lack of demand,

g) shortage of working capital,

h) surplus labour,

i) industrial unrest,

j) smuggling of imported goods into the country.

2.10 In a small scale industry, inadequacy of raw materials and orders, coupled with the problems of production, affects the level of production, while increase in the cost of raw materials, overheads and taxes push up the final cost of production. There is a decline in Sales. Added to this, poor cash management results in the flittering away of working capital and symptoms of sickness appear. Accounts are then overdrawn, the turnover slows down and stocks accumulate. The unit is unable to pay its workers and suppliers, its production falls and a chain reaction sets in.

Various causes leading to sickness in small scale industries are mainly :-

a) Management deficiency,
b) Inadequacy of finance,
c) Technological problems,
d) Marketing Problems, and
e) Other causes.19

2.11 Lack of management competence has been one of the important reasons for increasing sickness of small scale industries. New entrants, without requisite qualifications, training and experience in the field of manufacturing, organising and running of business, do not show any coping and innovative abilities in the fast changing environment.20

2.12 The youths, enter into manufacturing field because finance is made available to them by commercial banks, under Self Employment Scheme for Educated Unemployed Youth. An evaluation study of the Scheme carried out by State Bank of India recently has indicated that, these youths have neither motivation, nor training nor risk-taking capacity. Their educational qualifications also do not fit for the activity started by them.21

2.13 Inadequacy of finance is also reported to be one of the most important causes of sickness of small units.
New units enter the field with meagre capital and continue to face financial inadequacy right from their inception. Due to limitations of own resources, small scale units generally, start with a distorted capital structure, i.e. greater proportion of borrowings often in the form of interest bearing deposits from friends and relatives. Inadequate equity has been found to be a major cause of sickness, a weak equity base adversely affects the operations of a small unit, apart from making it vulnerable to environmental pressures.

2.14 Technological obsolescence in the case of a large number of small industries has turned them sick. Due to shortage of financial resources, many small industries have started with old second hand machinery. This is also partly due to technological illiteracy of the entrepreneurs. As a result, small units start facing problems of quality as also high cost of production right from the beginning and consequently, they find it difficult to compete with large industries producing the same products or other competitors from the small scale sector. The problem is likely to become more and more acute in the small scale sector with the fast changing technology.
2.15 One of the most important factors causing sickness in small industry is the inability to market the products, in a systematic way. The managers of small units do not have access to market information nor they are in a position to invest in advertising or go in for a country-wide marketing set-up.24

2.16 There are some other problems which cause an unit to become sick. Some units are born sick and the number of such units is increasing day-by-day. In order to meet the stipulated targets under the scheme for self-employment to educated unemployed youth (SEEUY) set by the Government in terms of the number of beneficiaries and quantum of finance, banks disburse loans without adequate preparation. Loan applications are not properly scrutinised and selection of beneficiaries is also not done properly. Many of the small scale units are also started by people without any experience in running an industry. The prospective industrialist may be technically qualified, but he must have an idea of potential demand, financial management, availability of raw materials, etc. Quite often a person decides to start a unit only because someone else, running a similar unit, happens to be doing well. In such circumstances, when the unit is set up without adequate preparation
and training, it is not surprising that the result
is a failure. Many small scale units are ancillary
units and their fate is linked up with large scale
units. They depend on the demand from large indus­
tries. Any adverse effect on large industries, there­
fore, is invariably felt by the small scale units
also.²⁵

2.17 The biggest constraint on small scale units is their
size itself. They cannot reap the benefits of scale,
bring down the cost of production, innovate and
adopt new technology and improve the quality of
their product. Due to these inherent weaknesses,
they have no withstanding power and are almost always
dependent on support from the government, large
industries and society in general.²⁶

2.18 Industrial sickness is a manifestation of several
maladies in the working of an enterprise. The factors
which generally contribute to the sickness of enter­
prises have been identified as faulty location,
nuneconomic size of the unit, changes in market situa­
tion, inappropriate technology, difficulties in
procuring the required raw materials, changes in
market/Government policy regarding pricing, import
duties, taxation policies, etc.²⁷
2.19 What one misses in trying to generalise about the causal factors in the above manner, particularly in the context of small scale industries, is the role of an alert and competent management. The industrial structure in the country has been significantly diversified in the terms of variety and types of products, sophistication of technology as well as the spatial spread of industry. The sources of flow of entrepreneurship are also diversified. Many of the entrepreneurs are newcomers to the industry and to the concept of management. Several others, who have hitherto been accustomed to quicker returns on investment, lack of necessary depth of commitment and sense of perception which are essential in managing modern industrial ventures. Many projects promoted by uninitiated and new entrepreneurs were abandoned during implementation. This underscores, the need for a proper identification and development of small entrepreneurs, supplemented by counselling efforts, before financial assistance is provided. The main causes of sickness are shown in the Fig. 1.
FIG. 1

**Problems in Production**
1. Machine breakdowns and poor maintenance.
2. Poor quality of raw materials.
3. Poor labour productivity.
4. Power shortage.
5. Lack of production.
6. Delayed supplies from subcontractors.
7. Poor industrial relations.

**Lack of Orders**
1. Competition.
2. Recession.
3. Low quality due to technical incompetence.
4. Irregular deliveries.
5. Poor marketing effort.
6. Obsolescence.
7. Power shortage.
8. Govt. policies.

**Lack of Raw Materials**
1. National or Regional shortages.
2. High costs.
3. Overdue payments.
4. Poor quality.
5. Uncertain supplies.

**Increased Overhead Costs**
1. Increased costs not recovered in selling prices due to faulty costing.
2. Large orders booked at fixed prices in an inflationary market.
3. High material wastage.
4. High inventory costs.

**Increased Taxes**
1. Octroi.
2. Sales Tax.
3. Excise, etc.

**Increased Cost of Production**

**Poor Cash Management**
1. Deliberate diversion of funds.
2. Well-planned but unwise diversion of funds.
3. Poor collections.
4. Unplanned payments to creditors.
5. High inventory.

**Drop in Internal Cash Generation**

**Lack of Working Funds**

**Lack of Management**

**Small-Scale Unit**
3. GOVERNMENT'S APPROACH TOWARDS INDUSTRIAL SICKNESS

3.1 A large number of textile manufacturing units had problems of management when they were taken over by the Central Government under the Cotton Textile Companies Management of Undertakings and Liquidation or Reconstruction Act, 1967. Such taking over was necessitated with a view to providing effective management as the units in a particular industry were not capable to cope with situation arising out of recession. The situation in West Bengal affected the traditional industries, viz. engineering, textile, jute and a few others. It was observed that following two successive recessions, the units which were running with antiquated plant and machinery, and obsolete technology could not make both ends meet. There were political uncertainties, inter-union rivalries, besides scarcity of critical raw materials resulting in continuous losses from year to year. The units lost their vitality and the Management having exhausted the reserves as well as own resources, could not provide any security to elicit finance from banks and other institutions.30

3.2 At this juncture the Government of India as also the State Governments became anxious, as the closure of the industrial concerns led to widespread
unemployment and rendered the productive assets idle. Besides, a large number of industrial units suffered from under-utilisation of capacity and were threatened with closure. This was the time when the concept of institutionalising credit to such failing industries was conceived. It was felt that mere providing of finance was not enough. It was necessary to extend other forms of assistance and support which the existing commercial banks and other financial institutions, being otherwise engaged in various developmental activities, could not undertake.\textsuperscript{31}

3.3 It was also felt that while such institution should be armed with various statutory powers, in view of the urgency, it was considered that, to start with, the institution should be registered as a Joint Stock Company under the Companies Act and start operation to assist the ailing industrial undertakings. The Charter of the organisation would enable it to attend to the problems of any closed or falling industrial units in any part of the country, though at the beginning very urgent problems in and around Calcutta would be its main preoccupation. For the most suitable structure of the body, it was felt that the Company form, at least to begin with, would provide the flexibility of approach and mobility in action.
The financial and investment institutions guided by Industrial Development Bank of India (IDBI) and the commercial banks were to support this organisation by providing share capital and other assistance. It was conceived that, by nature, the assistance provided by this organisation would differ from that of the development institutions as the return from the assisted units, which were in the advanced stage of sickness, would be very slow and hence, continuous governmental support would be necessary for the organisation to function.

3.4 The Industrial Reconstruction Corporation of India Limited (IRCI) was thus born in April 1971 and was primarily assigned the task of extending assistance to sick and closed concerns in and around Calcutta. Setting up of IRCI was unique in the sense that, in the past no financial institution had any experience to deal with the sick industrial concerns, in as much as the handling the situation was distinct from usual norm of lending. There was no security base of the assisted units to support the loan, the repayment schedule was flexible and moratorium was granted for varying durations depending upon cash generation, the terms of loan were softest and the rate of interest much lower compared to those existing in the prevalent time.
3.5 In the first year itself, of the establishment of the IRCI, there were 341 applications received from sick industrial concerns and an indepth study revealed that hardly 48 units could be taken up for nursing, as potential viability of the unit was considered to be the prime criterion. The study also revealed that majority of the units had a completely distorted financial position, capital base eroded several times over by accumulated losses, there were huge accumulation of external debts and statutory liabilities and the restarting of the operation necessitated start-up finance. As soon as IRCI participated in the revival Scheme of these units, the creditors pounced upon the concern for realisation of their dues. Even the statutory authorities, which were silent for years, submitted demand bills for their arrear dues and threatened the unit and its management with consequences of non-payment, and in some cases, initiated legal action involving the nominee directors of IRCI on the Boards of the units.

3.6 The initial release of funds to these units made by IRCI was totally unproductive for the future operations of the units and these loans being interest-added to bearing, the incidence of finance charges which a si
sick unit could not bear in a competitive market. After sanctioning assistance in case of each unit, great stress was being laid on post-sanction supervision and control. Nominee directors were appointed on the Boards of the assisted units. Care was taken to induct professional executives in deficient areas, purchase and sales committees were manned, periodical progress reports were called for, based on which the variance between the projected working result and the performance was examined with a view to adopting remedial measures, wherever necessary. Regular plant visits were made and continuous dialogue held with the Unit management to overcome any problems that were hindering the implementation of the rehabilitation programme.

3.7 Despite the improvement in the current operation, the past liabilities were hanging heavy. Since 1974, power crisis aggravated the problem, the credit squeeze restricted the availability of need based working capital, the interest rates were pushed up, the inflationary process started with the oil shocks and all the projections made in regard to the sick units about their future operations went in disarray. It necessitated further pumping in of funds to hold on the operations. Involvement of a governmental
agency in the unit was considered to be service security on the part of the workers engaged in these units. Due to this, rationalisation of labour, essential for viable operation of unit, could not be enforced. The aged labourers in the high pay brackets and the surplus workers were to be carried as the retirement would have meant infusion of further interest bearing funds, which again were unproductive.36

3.8 This experience of IRCI in the first decade of its operation forced IRCI to change its strategy of rehabilitation and the following approaches were made:

1. Not to take any fresh units for assistance, unless absolutely essential. This voluntary ban continued for about three years, 1978-1980.

2. Owing to various setbacks, the financial position of the assisted units did not improve much. The time, money and other assistance which were envisaged necessary for rehabilitation of sick units did not meet the actual requirement in full. The basic cause of decay could not be removed even after providing still more fresh funds. On a review of the existing assisted units, it was decided to examine if any unit had rendered itself unfit for further assistance
and in which case the rehabilitation programme should be withdrawn and the loan called back.

3. It was considered that further financing of cash losses and providing funds for unproductive purposes should be reduced and that, at the time of IRCI's participation in the rehabilitation of the units, more emphasis should be laid on acquiring capital equipment towards replacement, renovation, modernisation, diversification, expansion and upgradation of technology.

4. It was decided that the projection of future operation should be made with sensitivity analysis as adversity in any one sector should not disturb the total operation of the unit. Hence, the test of viability was made rigorous and selectivity of units to be taken up for nursing was emphasised.

5. It was considered that IRCI should actively participate in sharing modernisation assistance on an All-India basis, and it was to be a member of Inter-Institutional and Senior Executives' meetings convened by IDBI.
6. Banks, Institutions and Chambers of Commerce and Industries and Associations were informed of the role of IRCI, particularly inviting their attention that the units which had incipiently gone sick should seek assistance and guidance from IRCI so that rehabilitation scheme could be drawn with less discomfort and the fund required would be smaller compared to the situation when the sickness was deep-rooted.

7. With a view to securing the services of professionals and experts, an industrial pool was created in IRCI to recruit such professionals from the market, to be deputed exclusively in the assisted units, although they were on rolls of IRCI. With a view to encouraging successful entrepreneurs and professional executives, in appreciation of their leadership and the sustained efforts made by them to revive sick industrial concerns, a felicitation programme was arranged, when the former Union Finance Minister, Mr. Pranab Kumar Mukherjee presented, Merit Awards to them. Steps were also taken to approach public sector undertakings to depute officers to run the assisted units. In some cases, private as well as public sector enterprises (PSE) were requested to manage the units,
while the financial assistance was to be provided by IRCI. However, the results in such cases were not encouraging. Attempts were also made to form workers' co-operatives to run sick units. Despite sincere cooperation, workers lacked entrepreneurial ability and failed in managerial functions. This showed that mere financial assistance and providing other reliefs and concessions were not effective in reviving sick units.37

3.9 With this experience, the IRCI changed its role in preventing sickness and in rehabilitating potentially viable sick industrial concerns as well as to improve upon its own profitability. It was felt that the word reconstruction (which means to build anew) should be the only guiding factor when a sick case in the advanced stage is taken up and its viability is established before interest. The general principle governing reconstruction implies that the assets and liabilities, after reconstruction, are properly matched and that post-reconstruction equity and debt are capable of being adequately serviced in future of funds by the internal generation by the units. This would call for reduction of the existing share capital and debentures; rescheduling of existing loans; conversion
If loans into equity; reduction, write-off or a combination of such measures, consistent with the continued operation of the undertakings on a viable basis. In cases where reconstruction appeared necessary, any postponement or delay in finalising the scheme would not be in the interest of the unit or the Institution concerned. However, any suggestion on this account normally did not meet with the approval of the involved institutions and banks who had their internal problems to voluntary write off although the money invested in the sick units, for all practical purposes, earned no income.

3.10 IRCI's assistance was not restricted to the Units in West Bengal alone. With the spread of sickness to other regions IRCI's assistance covered 20 States and Union territories of Punjab, Haryana, Delhi, Uttar Pradesh, Himachal Pradesh, Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Goa, Karnataka, Kerala, Tamil Nadu, Andhra Pradesh, Pondicherry, West Bengal, Bihar, Assam, Orissa and Andaman. Till June 1984, IRCI sanctioned term loans of Rs.286.14 crores to 262 Units and disbursed Rs.197.66 crores to 204 Units. IRCI was called upon to provide assistance to 32 Units, Management of which was taken over by the Central Government under the Industries
(Development and Regulation) Act, of which, in regard to nine units, IRCI was made 'authorised person' since beginning and, in regard to two Units, it took over the 'Authorised Personship' mid-way in the process of revival. In the ten cases, nationalisation was considered necessary to build up a base in certain particular types of industries, both for export purpose as well as to make effective administered prices. In some cases, when IRCI was holding the operation of certain units, the Central Government nationalised the Units along with many others of the same industry as a general policy in public interest. In another case, IRCI recommended such nationalisation because all the customers of the Unit were in public sector. In many of the taken-over Units, measures were considered to restructure the capital and liabilities or undertake sale of the Unit as an growing concern in terms of the provisions under Industries (Development and Regulation) Act. However, these steps were found unworkable because of the time consuming process and legally hazardous problems. On the contrary, nationalisation of the Units gave a new lease of life by completely reconstructing the financial position and rendering the assets unencumbered, to start
with. The participation of IRCI in the inter-institutional meeting and sharing of finance, particularly in regard to rehabilitation and modernisation cases, has proved very effective.39

3.11 In regard to small scale sector, IRCI initially provided direct assistance. It was observed that instead of an All-India Financial Institution directly involving itself in small and tiny units all over India, it could channelise the funds through the State-level institution (SLI) nominated by the Government of the respective State and Union territories. In 1979, IRCI pioneered the Line of Credit (LOC) Scheme to provide financial assistance for rehabilitation and modernisation of small scale Industrial Units. To cope up with power crisis, IRCI provided hire-purchase facility for procurement of generators to its assisted units. It also introduced a Scheme for procurement of plant and machinery, under lease terms.40

3.12 With a view to remove the constraints faced by IRCI, the Government of India passed a legislation, Industrial Reconstruction Bank of India Act, 1984 for the purpose of setting up Industrial Reconstruction Bank of India (Reconstruction Bank). The
Reconstruction Bank was established on March 20, 1985. The undertaking of IRCI stood transferred to and vested in the Reconstruction Bank. The undertaking of IRCI is deemed to include all assets, business rights and interests in or arising out of such property as were immediately before that date, in the ownership, possession, power of control of IRCI and is deemed to include all borrowings, liabilities and obligations of whatever kind then subsisting of IRCI in relation to its undertaking. It would function as a principal credit and reconstruction agency for industrial revival by undertaking modernisation, expansion, re-organisation, diversification or rationalisation of industries and by co-ordinating similar work of other institutions engaged, therein and would assist, promote industrial development, reconstruction and revival and undertake rehabilitation of industrial concerns by providing or procuring assistance and operating schemes for the same. In view of the additional responsibility entrusted upon the Reconstruction Bank, it has immediately taken upon itself the need to equip the organisation and devise means to co-ordinate the efforts of all agencies for purposes of industrial revival. The Reconstruction Bank would convene inter-institutional reconstruction
meeting (IIRM) of all-India financial institutions for framing schemes of rehabilitation in regard to sick units referred to it.  

IRBI's primary role is to

a) meet essential capital expenditure for renovation, installation of balancing equipment, diversification, expansion and modernisation;

b) bridge the liquidity gap and providing margin for working capital, and

c) meet pressing liabilities considered necessary for the purpose of reconstruction.

The IDBI is envisaged to act as a focal point for rehabilitation of sick units, having the final say in the delegation of responsibilities of the respective lenders. Most of the sick units in the small scale sector are assisted indirectly by IDBI, under its Scheme, entitled as "Refinance Scheme for Rehabilitation of Small Industries". The Scheme covers all small industrial units including ancillary units and units in cottage and village industries sector, as also those in tiny sector.

3.13 The Government has also been quite responsive to the marketing needs of small scale entrepreneurs,
as it has reserved more than 800 items to be procured exclusively from the small scale sector under the Central Government Store Purchase Programme implemented by the Director General of Supplies and Disposals.

4. **APPROACH OF BANKING INSTITUTIONS TOWARDS SICKNESS**

4.1 The Banks can play a much more dynamic role to prevent sickness. Since bank securities are obtained, as far as possible, from the assets created from the banks' own loaned funds, calling upon a loan could lead to liquidation of business. Considering the bank's stake in a project, its correct appraisal is of vital importance to it. The bank must determine the Unit's resistance in times of adversity. Though a bank cannot be expected to predict the future, it ought to be in a position to judge the possible danger that a project could be exposed to. It should examine two broad areas: external and internal. External factors include power, raw material, competition, recession and regulatory restrictions. Usually neither the bank nor the entrepreneur has any control over external factors and they just have to be lived with. But a check can be kept over the internal causes. The term 'lending institutions' which include the Industrial
Development Bank of India, and the Industrial Finance Corporation of India and the Industrial Credit and Investment Corporation of India Ltd. too can play a much more effective role to prevent sickness.

4.2 The Reserve Bank of India has set up a sick industrial undertakings cell to function as a clearing house for information on sick units and act as coordinating agency between Government, Banks, Financial Institutions and other agencies with a view to tackling various related issues. This Cell has been closely monitoring the bank's performance in identifying sick units and taking remedial action. Committees have been set up at all the Regional Offices of the Reserve Bank of India for the purpose of ensuring a better coordination between Banks, Central and State level financial institutions on an on-going basis. The Reserve Bank of India has issued suitable guidelines to banks so that they may give timely help and support to potentially viable sick units. A special cell has been set up within the Rehabilitation and Finance Division of the IDBI to attend to the cases of industrial sickness. The study group also brought out that the units get into difficulties with a study of erosion of profitability which affects liquidity. The
deterioration in liquidity position if allowed to continue would result in delay in making payments to creditors. At this stage, the borrowers are tempted to furnish incorrect stock statements to show that their accounts are regular. Bankers should be vigilant and evolve a system of feedback on the borrower’s operation, so that the danger signals become available in advance. Timely examination and discussion with the borrowers may save the Units from becoming sick. Bankers can also take the help of the Consultant to diagnose the sickness and suggest a course of action to avoid loss not only to the bank but also to the society at large. 48

4.3 A study team on effective growth of small scale industries was constituted by State Bank of India in 1975 with Shri J.S. Varshneya, the then Deputy Secretary (Operations), Madras Local Head Office as its Chairman. The team suggested that banks should prepare counselling materials and make use of their consultancy organisations in guiding small scale entrepreneurs. Banks should train and educate this class of borrowers, bring attitudinal changes in their officers and provide technical support to the field staff. They also recommended revised appraisal procedure for small scale industrial units.
They further suggested that in case of irregularity in the accounts, the entrepreneurs should be given a period of 3 months to adjust the same. In case it persists, the causes may be investigated into and decision for revival or to call up the advance should be made within 9 months after the appearance of the irregularity. As per the Committee's Report, a sick unit may be defined as one which fails to generate internal surplus on a continuing basis. They also analysed the major factor which may affect a nursing programme and suggested that:

a) rehabilitation decision should be well calculated and no margin for error should be left,

b) additional financial inputs should be so made as to be commensurate with the debt burden since the break-even point will be much higher in cases of sick units,

c) the irregularity in the accounts be cleared gradually from the internal surplus generated after meeting working capital needs,

d) the nursing programme should not be delayed, and

e) a close monitoring system of the rehabilitated units be evolved to have a watch on their progress.
4.3 The city based Indian Overseas Bank (IOB) has embarked upon a massive programme of rehabilitation of sick small scale units. The bank has identified 4532 sick units for the purpose, of which as many as 3100 units have already been put through the nursing process at cost of Rs. 34.24 crores. In Tamil Nadu alone, the bank has 646 units on its rehabilitation agenda.

4.4 The Federation of Indian Chambers of Commerce and Industry has called for a sickness insurance scheme to be formulated and introduced by the Reserve Bank of India to safeguard interests of the small scale units as well as that of financial institutions and other concerned parties.

4.5 One of the latest developments in the field of rehabilitation is the enactment of legislation termed "The Sick Industrial Companies (Special Provisions) Act 1985". The Act provides for the formation of the Board for Industrial/Financial Reconstruction (BIFR). The Board is armed with wide ranging powers – administrative and judicial – with the object of cutting delays and catalysing action. The penal provisions in the Act against errant managements are expected to act as a deterrent on defaulting.
promoters and this is expected to result in checking the industrial sickness.\textsuperscript{52}

4.6 The Reserve Bank of India has instructed all the banks not to charge any overdue interest rate in the case of sick units. Where a revival programme is contemplated the banks are expected to charge interest in accounts not more than the actual cost of funds. In case where there is need for further reduction in order to revive a sick unit, the banks waive substantial portion of the past interest accumulated or fund them to be repayable in easy instalments. These funded loans generally do not carry any interest for future periods. Besides, nursing programmes involve substantial sanction of additional facilities.\textsuperscript{53}

4.7 Problems are plenty and there cannot be a second opinion that the bankers should play the main role. Banks face the problem of manpower. Problems are so complex that it requires special understanding of individual situations. It is a fact that adequate number of personnel of requisite calibre do not man appraising departments partly because of the dearth of these personnel and partly because of the bank's own promotion policy. Faced with the problems of dearth of suitable persons to appraise sick advances, it is inevitable for the banks to approach professional
consultants in a large number of cases for conducting diagnostic studies. All these organisations are not in a position to render meaningful services to the banks. The best course open to banks to avoid these additional costs is to convert these loans to be repaid by sick units into a part of the rehabilitation programme.54

4.8 It is also pointed out by the bank that the sick baby is not the bank's alone. Even when it is observed that the sickness amongst small scale industries is increasing rapidly, the approach of the Government or the Banking Institutions reveals that steps are taken by the agencies only after the unit is declared as sick. So far as financial analysis is concerned, some Chartered Accountants do analyse the balance sheets of the Unit. The Government approach as well as the approach of the banking and financial institutions being soft and more helpful, some professionals are tempted to recast the balance sheet and exhibit a unit as sick even when it is not so. No efforts have been made by any agency to compare sick and non-sick units particularly in the context of the financial components.

5. The Research Worker is of the opinion that a comparative study of sick and non-sick units in respect
of each Financial Component as well as Financial Ratios is an essential part of the study of sickness to know their influence upon sickness.
REFERENCES


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51. FICCI wants sickness insurance scheme, 18th May 1988.


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