CHAPTER - III

PREVENTIVE AND CURATIVE MEASURES

1. PREVENTIVE MEASURES

Before entering into a comparative study of sick and non-sick units, it would be worthwhile to take stock of preventive and curative measures which have been suggested and/or tried. The preventive measures encompass a wide area of industrial sickness. Preventive measures include regular visits by representatives of banks or financial institutions to units assisted by them with a view to ensure their proper monitoring. It is essential to watch the progress of industrial units at regular intervals to ensure their continued viability. Banks or financial institutions should give timely assistance to small units by taking safeguards without making them cumbersome. There should be a proper co-ordination between all the financial and other allied institutions so that an entrepreneur can receive term loan and loans for working capital. The entrepreneur should also get cement and steel to construct factory building, power to run the factory, proper supply of raw materials and finally market for his product. It should also be seen that the
sick unit does not have to face labour problems, such as sudden strike. Most of the problems can be solved by financial institutions to prevent sickness. The Management of the Institution should also be resourceful and enthusiastic in running the unit.¹

1.2 To prevent sickness in small scale industries, potential as well as existing entrepreneurs should be given entrepreneurial training. Sickness can also be prevented through counselling and guidance, in which not only the government and its concerned agencies, but also large scale industries, financial institutions including commercial banks as also associations of small scale industries have to play a more active role. This alone will help to prevent sickness in small scale sector.²

1.3 Basically the principle of 'prevention is better than cure' holds true in an industry's sickness also. The financial institutions must scrutinise the Project Report from all points of view such as process, raw material quantities, their availability and costs, consumption of utilities such as fuel, energy and/or power, water, steam and their impact on production cost, process, technician, market for the finished product, ability of entrepreneur and the cash-flow, over a number of years. Additionally, provision for
escalation in costs, contingencies, risk factor involved in process and quality of product must be considered. After keeping a check on these preliminaries, when the unit goes into operation, the term lending institution must insist on and carefully examine monthly production reports, periodic stock statements, cash credit accounts, and undertake surprise checks. The term-lending institution, working capital-lending bank and the industrialist must come together and jointly handle the problem. Maximum capacity utilisation lesser overheads and reduction in production costs should be aimed at. 3

1.4 While revival of sick units is a later issue, we must see if there is some way we can avert a unit getting sick. Are there any symptoms which will reveal this fate in advance so that remedial measures can be thought in time? In effect, how do you go about assessing your health? A unit turns out to be sick when it is not able to meet its debt and liabilities. The recoveries against sales are not in time. Payments against supplies made by them to large units are sometimes unduly delayed. The unit runs short of cash requirement. If the supplier is not assured of payment in stipulated time, credit facilities are stopped, damaging the image of the unit in industrial areas/circles. Shrinkage in sales must be
watched for and averted as far as possible. The trend of relationship between the costs and profits need a keen watch. You should also keep a watchful eye on how the market for your product is changing vis-à-vis your share in the market. There are other suitable indicators which may reveal your descent. If your competitors are expanding, employing more workmen or adding new equipment, you may get some hint about their expanding share. If a number of new entrepreneurs have been or are being encouraged in the same product lines, it means that the market is growing. For you to maintain your share of the market in the light of new entrants, is going to mean a lot more effort and lot more sales. On the whole, to assess health of a unit, one has to look at the variations and trends over the past few years. In such comparisons, usually, ratios indicating financial relationship are made use of.

1.5 The Union Energy Minister, Mr. Vasant Sathe, has prescribed a four-point formula to prevent sickness among public sector enterprises. The four points are: delegation of authority to the public sector management, maintenance of management continuity, accountability of the management and evolving a work culture in which the entire work force participates.
If these four points were kept in mind while managing a public sector unit sickness could be averted and even the existing sickness could be cured.

1.6 According to Kaveri, V.S. (1983), financial analysis is conducted to get signals of sickness. The results of such analysis are useful in taking appropriate preventive action against sickness. The preventive measures are also based on the study of other statements such as funds flow, cash flow, etc. Financial statements are mainly analysed through ratio-analysis. Thus, ratio analysis proves to be a tool for preventive measures of sickness. Dr. Kaveri (1983) has also recommended trend analysis as a preventive measure. Trend analysis, according to him, amounts to studying the balance sheet of the same unit over a number of years. Kaveri, V.S. (1983) also recommends comparative study of units in the same industry as a preventive measure.

2. REVIVAL, NURSING, REHABILITATION AND MERGER AS CURATIVE MEASURES

2.1 Curative measures depend upon the nature and extent of the problems confronting units and are supplementary to the efforts of entrepreneurs. But, if by an unhappy mix of internal and external causes, a unit
does fall sick, prompt revival action may ensure its survival. Such action involves a short-term plan for achieving a net positive cash flow as quickly as possible. An effective remedy is pumping in additional funds by financial institutions for purposes of expansion and modernisation, and the purchase of balancing equipment, usually after concrete proposals for a programme of repayment of existing overdues and outstandings.7

2.2 Nursing a sick unit back to health is indeed a very difficult task which cannot be the sole responsibility of a bank or any other financial institution. It should be the joint responsibility of a bank or any other financial institution, the Government (Central or State), labour and borrowers. There should be an awareness at all levels and in particular at the operating level, that it is possible to bring a unit back to health, unless a study reveals that it has lost its viability and is beyond redemption. Even a closed unit can be revived and rehabilitated.8

2.3 Although there cannot be any uniform prescription for nursing and rehabilitation of sick units, some broad guidelines may be suggested:

1. A diagnostic study should be undertaken to deter-
mine the causes of sickness and of a unit's potential viability, depending upon its size, the status of a bank and the complexities or sophistications of operations. Consultants or expert agencies may be engaged for the purpose; wherever necessary.

2. The assets and liabilities of a unit should be ascertained.

3. The assets charged - both current and fixed - should be evaluated, particularly when it is estimated that there is a wide gap between the outstanding amount and the declared book value of assets.

4. The assessment of funds, both long term and short term, should be made. Normally a bank should provide additional funds for working capital, but some amount on long-term basis may be necessary, where the need is immediate. For large outlays on renovation or modernisation, units should resort to the soft loan schemes of IDBI.

5. Where management deficiencies have been detected, borrowers should be asked to overcome them by inducting professionals on the Board of Directors and by appointing competent technical and
managerial personnel in key positions in Production, Finance and Marketing. A bank may appoint its nominees as observers on the Board wherever necessary.

6. Sick units should be given concessions in interest, margin money and time for repayment of debts.

7. A bank should consider easy repayment of long term loans with reasonable moratorium.

8. Labour should agree to play its part by accepting arrears of wages in easy instalments and by agreeing to phased deployment with increased production. 

2.4 The following steps have been taken for the rehabilitation of sick units:

1. 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 a coordinating agency between the Government, banks, financial institutions and other agencies with a view to tackle various related issues. This cell has been closely monitoring the bank's performance in identifying sick units and taking remedial action.
2. Committees have been set up at all the regional offices of the Reserve Bank of India for the purpose of ensuring a better co-ordination among banks, Central and State level financial institutions, State Governments and other organisations involved in promoting industrial growth.

3. The Reserve Bank has constituted a Standing Co-ordination Committee to consider issues relating to co-ordination between banks and term lending institutions.

4. 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.

5. A special Cell has been set up within the Rehabilitation and Finance Division of IDBI to attend to cases of industrial sickness.

6. A Screening Committee has been constituted in the Department of Industrial Development to consider proposals sponsored by various Administrative Ministries concerned with sick units and financial institutions.¹⁰

2.4 The Industrial Reconstruction Corporation of India (IRCI) had adopted a new strategy for revamping sick
units. It has worked out a basic minimum programme of renovation and modernisation for each unit under its care. In an effort to overcome various operational difficulties of the sick units which usually have a greatly distorted debt-equity picture, the Corporation has undertaken to restructure the capital of selected sick units.¹¹

2.5 In order to encourage healthy units to merge with sick units, an amendment was made to the Income Tax Act in 1977. With this amendment, where a merger is accepted by the Central Government to be in the public interest, the accumulated losses and unabsorbed depreciation of the merging company will be allowed to be carried forward and set off in the hands of the merged company. According to the guidelines issued in July 1980, parties interested in merging with other units can now avail themselves of the Income Tax concession under Section 72-A even before applying to the specified authority for actual mergers.¹²

2.6 In order to rehabilitate potentially viable sick units, commercial banks formulate nursing programme to revive them and bring them to health. In depth studies are carried out to determine the new break-
even point or the viable level at which the sick unit will operate to generate reasonable surplus, i.e. surplus which will over a period of time wipe out the existing irregularities and build up adequate equity to meet normal margins and allow gradual withdrawal of the special concessions granted to the unit. Revaluation of assets, restructuring of liabilities rescheduling of repayment programmes, sanction of finance as required for rehabilitation, etc. are among measures which commercial banks have initiated to help in the rehabilitation of potentially viable sick units. Consultancy Cells of Commercial banks also put forward suggestions for removing the weakness observed in various areas like production methods, inventory control, costing, marketing, financial management, information systems, etc. Where required, banks also approach external agencies involved with the sick units for appropriate liberalisations from them. It is important to emphasise that nursing and rehabilitation programmes are more like "first aid" and may not be of much help if the unit is very sick. 13

2.7 An indepth analysis into the problems of sick units would clearly reveal the following constraints and indicate the following possible remedial measures :-
1. **Plant and Machinery**

A Unit might not have seen the replacement, modernisation or expansion of plant and machineries and other production facilities for years together, or might have been, from its inception, the victim of sickness. Immediate steps which are required to be taken in such cases are to work out a complete inventory of plant and machineries which are to be thoroughly overhauled, which are to be replaced, which are to be modernised and which are to be balanced with reference to the total production requirement of the unit and with reference to market demand. This rehabilitation and modernisation process should be done in a timebound programme and not with reference to the extent of availability of finance, as piece-meal progress would not bring the desired result.

2. **Market**

Due to low level of production and deterioration in the quality of the products, the market image also gets a setback, damaging the market potentiality. Modernisation and improvement of quality revives the market image so that additional production can be easily absorbed.
3. **Finance**

Lack of finance is the greatest impediment to revival of a sick unit. The financial assistance in the required doses is not always available towards the implementation of the measures of revival of the unit. In most of the cases the financial assistance comes merely for the survival or existence of the unit. The survival operation costs massive investment over a longer period, these could be saved by proper investments in time, for revival. The investment in revival would yield some definite results.

4. **Labour Relations**

The performance of a unit largely depends on the performance of the employees of the unit. In a sick unit, possibly for the sake of their own survival, existence and prosperity, the employees get more strongly united under the banner of some Trade Unions. Employees are also made to believe and possibly rightly so, that it is through such unity and strength of the Trade Unions that the workmen can get adequate security of their employment. The performance of the unit is heavily affected due to this tendency of workers.
5. Viability Scheme

A realistic viability scheme should be prepared and slowly but steadily the unit should be brought to a stage of self-financing and only thereafter a profitable stage to ensure adequate return on capital employed.14

2.8 The Reserve Bank of India has circulated a rehabilitation package for potentially viable sick unit. A unit may be regarded as viable if it would be in a position, after implementing a relief package spread over a period of not exceeding seven years, from the commencement of the package, from banks, financial institutions, Government (Central/State), Government agencies, shareholders, labour, suppliers of goods and services and other creditors, as may be necessary to continue to service its repayment obligations as agreed upon including those forming a part of the package, without the help of the concessions after the aforesaid period. The repayment period for reconstructed debts should not exceed ten years from the date of implementation of the package.

1. Term Loans

Interest on term loans may be reduced where considered necessary, by not more than two per
cent below the prevailing rate, by both banks and term-lending institutions. Within this range of 2 per cent, however, the extent of reduction by the banks and the term lending institutions need not necessarily be equal. Any further reduction would require Reserve Bank's clearance in respect of term loans from banks.

2. Irregularity in Cash Credit Account

The irregular portion of the Cash Credit Account may be segregated with reference to the first date of the accounting year from which the unit started incurring cash losses continuously. It would be necessary to waive penalties and damages applied in the Cash Credit Account. It is usual for the packages to make a provision for segregating and funding the unrealised bank interest debited to Cash Credit Account (which is one of the factors rendering the account irregular). The normal period of repayment of such funded interest should be 3 to 5 years. In exceptional cases this period could be elongated to 6 to 7 years at the discretion of the banks and term lending institutions. As funded interest is generally unsecured and will bear a rate of interest well below the normal rate on cash credit, banks may ensure, as far as possible,
that the repayment of funded interest gets precedence over, or is spread over a shorter duration than the repayment of institutional loans. Funded interest should not be free of interest. Interest may be charged on funded interest at the rate of 10 per cent subject to annual review. Where a lower rate of interest is felt necessary in exceptional cases it should be referred to the Reserve Bank for prior approval. Since a drastic reduction would affect the profitability of banks, their specific concurrence to the reduction envisaged in the package would be necessary. There will normally be no write-off. Exceptional cases where write-off is considered absolutely unavoidable, should be referred to the Reserve Bank.

3. The irregular portion of cash credit, other than unadjusted interest (on both cash credit and institutional loans) and after excluding penal interest/damages should be converted into a working capital loan, with definite repayment schedule. Interest shall be charged on the rate working capital term loan, at a ranging from 15% to 13.5%.
4. **Sharing of Cash Loans**:

The interest portion representing interest on term loans and working capital facilities should be segregated from the irregularity in the Cash Credit Account. The interest portion as segregated should be funded as pointed out earlier, and borne by the banks or institutions, according to their respective shares. The remaining irregularity after segregating the interest portion as above would represent the cash loss of the unit already borne by the bank. Past cash losses would be normally reflected not only in the irregularity in the Cash Credit accounts of the banks but also in non-payment of statutory dues, workers' dues and overdue creditors. Further, cash losses are also likely to be incurred during the initial period of implementation of the rehabilitation programme till the unit reaches the breakeven level. Past cash losses as reflected in the irregularity in the Cash Credit Account, would have to be funded separately into a Working Capital Term Loan and should be borne by the banks themselves. The cash inputs required for meeting a part of overdue liabilities, workers' dues and pressing creditors forming part of the package may be shared between the participating
banks and institutions on 50:50 basis. Future cash losses, i.e. losses from the time of implementation of the package up to the point of cash break-even as projected, would be borne by the financial institutions which will also provide the margin money for additional working capital. In cases where no term lending institutions are already involved, the cash inputs mentioned above as also the projected cash losses would be borne or shared by the Industrial Reconstruction Bank of India. Thus, all cash inputs required for revival of the Unit, other than those that will be shared with the banks as set out above, and in addition, future cash losses up to the point of break-even as projected in the rehabilitation package, will be taken care of by the concerned term lending institutions/IRBI. Additional cash losses arising on account of any deviation from the projections accepted in the package will be shared in an agreed manner as may be decided at the time of review of the package.

5. Need-based Working Capital
Besides the funding of the existing irregularity in the accounts, need-based working capital would require to be provided to sustain further
operating requirements of the unit. The requirements for working capital must be worked out strictly according to norms relating to inventory and receivable and should not exceed the permissible bank finance, as far as sick units are concerned. Interest on working capital should be charged at the commercial rate, viz. between 16.5% and 17.5% and the package should be prepared taking into account the rate of interest currently being charged by the banks. However, wherever concessions are forthcoming from the State Government, the banks may reduce the rate of interest to 15 per cent, where necessary. In order that there is no delay in the implementation of the package due to non-release of working capital funds in cases, where State Governments are willing to extend assistance, banks may release their share on getting a firm commitment from them regarding their contribution towards the reliefs and concessions provided the agreed contribution of promoters is forthcoming.

6. Promoters' Contributions

Promoters' contribution should comprise fresh injection of funds as distinct from internal generation of proceeds from sales of assets already charged. Proceeds from sales of assets
not charged, may be taken into account as promoters' contribution. In the cases involving change of management and professional management the promoters' should be required to bring in 15% of the additional long-term requirements envisaged under the package. In other cases, the promoters' contribution shall be 20% of the above. At least 10 per cent should be brought in immediately and the balance of 10% or 5% as the case may be, within six months. Such funds will be on non-interest bearing basis. If there is an indication that there has been siphoning off of funds from the unit by the promoters/management, the package should stipulate that these funds should be brought back within a specified time limit. If this is not complied with, the further implementation of the package should be reviewed by the banks and term lending institutions.15

2.9 The period of rehabilitation packages should have an outer limit of seven years. If a unit cannot be expected to regain health within seven years, then it should not be regarded as commercially viable. Where a unit is considered viable and a rehabilitation package has been drawn up, the period of repayment
of reconstructed debts may however, extend up to a maximum period of ten years. The rehabilitation packages should invariably provide for the right of annual review of the reliefs and concessions extended. In regard to concessions and reliefs made available to sick units, a clause could be added whereby when the units turn the corner and the rehabilitation is successfully completed, the sacrifices undertaken by the institutions and banks should be recouped from the companies out of their future profits/cash accruals. Alternatively, there may be provision for equity participation to the extent of sacrifices made.

2.10 The Reserve Bank of India has directed the public sector banks to give their senior executives more powers to hasten the process of finalisation of rehabilitation scheme for sick units. The revival package, to be formulated by the 'specified operating agencies' in consultation with the newly constituted Board for Industrial and Financial Reconstruction (BIFR) should not be held up for want of timely decisions and effective follow-up. Besides the "direct involvement and supervision by sufficiently senior executives of the bank", organisation and administrative machinery in each bank should be geared up
to implement the nursing programme. The rehabilitation schemes for sick units should be prepared and submitted to the Board by the operating agencies within 90 days. Any agency required to provide financial assistance to the sick units as part of the scheme has to specifically indicate its consent or otherwise within 60 days. The revival package will force sacrifices on all the parties concerned, promoters, union, and State Governments, creditors and labour. As the banks are to be fully involved in the preparation of the revival scheme, the question of their withholding consent for assistance should not arise. If more than one bank is involved in financing the units or a consortium arrangement exists, the lead bank should report to the Board. In other cases, it should be done by the bank having major share in financing the unit.17

2.11 The Industrial Development Bank of India (IDBI) plans to organise 'rehabilitation camps' for sick small scale units. The proposed camps will have the representation of the Reserve Bank of India, commercial banks and State Governments and other agencies.18

2.12 The Government of Maharashtra has modified the Margin Money Scheme for revival of sick small scale
industrial units and constituted a State level rehabilitation committee to implement the scheme. The Scheme will be implemented through Regional Development Corporations, in their respective jurisdiction and Maharashtra Small Scale Industries Development Corporation in Greater Bombay. Margin Money in the shape of loan will be sanctioned to a sick small scale unit only on the recommendations of the State level rehabilitation committee. The loan under the Scheme will be sanctioned only to those units which are registered with the Directorate of Industries, Maharashtra State, and have been set up in preceding 7 years. The maximum assistance under the Scheme will be restricted to Rs.50,000 per unit. The loan sanctioned will not normally exceed 50 per cent of the margin money required by the entrepreneur to avail of the additional loan from financial institutions, banks, under the rehabilitation programme. Similar percentage limits in case of small units will be 75 per cent. In exceptional cases, however, this amount may be increased upto 75 per cent in case of small scale industries and 90 per cent ceiling of Rs.50,000/- per unit.19

2.13 The Federation of Indian Chambers of Commerce and Industry (FICCI) has called for a sickness insurance
scheme to be formulated and introduced by Reserve Bank of India (RBI) to safeguard the interests of the small scale units as well as that of financial institutions and other concerned parties. 20

2.14 From the Review of the steps taken for revival and rehabilitation, it is observed that financial analysis has been advised as a preventive measure, but it is not strictly adhered to. The measures of revival or rehabilitation with a prolonged period of 7 years as guided by Reserve Bank of India, possibly amounts to maintaining a sick unit as it goes, unless it is inevitable to close. No thought seems to have been given to the fact that even under the same circumstances, one unit becomes sick and the other does not. It may be that even a non-sick unit may be running just because it has not been declared sick.
REFERENCES


5. : 4-Point Formula to prevent sickness, Special Correspondent, Financial Express, 29th April, 1987.


