CHAPTER-IV

ANALYSIS OF CAUSES OF INDUSTRIAL SICKNESS

SECTION-I

The present chapter exclusively deals with the sick units covered in our sample survey. In all ten units have been covered, out of which four are declared as sick units by District Industries Centre, Kudal. The remaining six units are declared sick by banking institutions. The first section of this chapter will discuss the norms of sickness as applied by both agencies i.e., D.I.C. and banks. This will facilitate the comparison of these norms with those of Reserve Bank of India.

Only the units which had applied to D.I.C. office for the declaration as sick unit are taken into consideration. For identification of sickness there is one committee called "Identification Committee". This committee is formed under the direct supervision of the district collector. The members of this committee are as follows:

1. Collector	Chairman
2. D.I.C. Manager	Member
3. District Lead Bank Manager	do
4. Bank Manager of the concerned bank	do
5. Technical Officer of the concerned bank	do

This committee studies the reports given by the concerned

bank. If the unit fulfils the norms laid down by R.B.I. and Government Resolutions, then only it is declared as sick unit. The concerned bank declares the report after having studied the incurrence of cash loss in the previous year. If it is likely to continue to incur cash loss in the current accounting year and has an erosion on account of 50 per cent or more of its net worth or continuously defaulted in meeting four consecutive quarterly instalments of interest or two half-yearly instalments of principal, on term loans and there are persistent irregularities in operation of its credit limits with the bank. The committee studies very carefully the report submitted by the concerned bank and then decides whether a particular unit is to be declared sick. This process of declaration of sick units has been found to be time-consuming. The concerned papers required by the committee are not submitted by the sick units in time. So, this process gets delayed.

4.1.1 Experience of the Commercial Banks:

In this study we observe that Bank of India is a Lead Bank in this district but actually the State Bank of India has financed largely to the units located in this industrial estate. This bank declares the unit sick mainly on the basis of generation of surplus funds based on the operational performance. This bank looks after the financial balance of the unit. If it finds imbalance in financial structure as total outside liabilities to the net worth, then it is considered sick unit. However, the bank considers the profit and loss position of the unit. The norms used for cash losses are as the norms

declared by R.B.I.

The bank is an institution which is related to the unit in its day-to-day operation. So, the actual progress of the unit can be observed by the bank sooner. If the bank observes that the unit is not working well and fails to reach to the target reported in the project report, then the bank checks unit's position keenly. But while collecting data we observe that in this area banks have not adequate staff which can guide the entrepreneurs from time to time and can advise unit well in time for better working.

After observing the methods applied by both agencies i.e., D.I.C. and concerned commercial banks, we come to conclusion that both the agencies apply the norms of R.B.I. while declaring the unit as sick. As compared to the commercial banks the process of declaring a unit sick is very slow with the D.I.C. office. This results into the deteriorating condition leading to sickness of the concerned unit and thus the rehabilitation programme is delayed. It has been the experience of the bankers that most of these units do not have the necessary scientific background for understanding the financial position of the unit, leave aside the question of taking rational steps to improve the position.

SECTION-II

4.2 Summary of the Causes of Industrial Sickness:

This section throws light on the causes of industrial sickness.

The major causes emerging out of our study have been discussed in detail.

4.2.1 Project Formation:

In the present study we find that many units are born sick. There are some basic errors in project conception and ensuring home-work, required for forming up the project idea. We have observed two specific units that have selected faulty products. Entrepreneurs often select a product because every one else in a particular area is making it or going to make it. So, there is a "Wave of an Industry". The chemical product units as well as plastic units are some of the examples of such "Waves" in M.I.D.C. industrial estate, Kudal.

In the case of new products and entrepreneurs should develop the technology fully. Some of the entrepreneurs of sick units do not have full idea of technology of the product they have selected. In the case of Yash Entreprise the entrepreneur has previous experience in general trading. He does not have adequate technical knowledge, as a result of which he faces lot of difficulties in running the unit. The example of Kubal Canning Industry is one of the typical examples of faulty project formation. This unit has not utilized more than 10 per cent of its technical capacity in the three years.

4.2.2 Absence of Market Analysis:

In this study we have observed several units who started

their production without looking into such key problems as the size and nature of the market, the demand-supply outlook, the location and characteristics of potential customers. We have observed in the case of some chemical units that they have faced such kind of problems. Most of the sick chemical units are dependent upon the foreign market, for raw material and final product. The minimum nearest market for their product is 500 Km. away i.e., Bombay.

Then there are two engineering type sick units that set up the units just because the mother unit was being opened in this estate. After two years they found that the mother unit cannot be opened for certain difficulties. These units had never done any market assessment of their own. So, we come to the conclusion that most of the entrepreneurs of sick units decided to change the product which was just technically feasible.

4.2.3 Wrong Fixed Investment Decisions:

Investment decision is one of the important decisions in project formation. In this study we find that the entrepreneurs of sick units have failed to take optimum size of fixed investment. Such investment errors are common in land, building and machinery. In this study we observe that Radha Paper Industry has built up a shade required, which is five times larger than what would be needed at full capacity utilization. Kubal Canning Industry, another sick unit, has invested 8.3 lakhs in plant and machinery as this unit cannot utilise its capacity in the last three years above 4 per cent.

The machinery used in this unit is a fancy imported machine which is simply not needed. It is a sick unit under the spell of implementation enthusiasm. Initially such decisions look rewarding but once the business starts declining, the full impact begins to be felt.

If entrepreneurs are lucky enough to service the implementation challenge, they slip in meeting working capital needs. A slightly delayed payment or a negligible accumulation of inventories throws the working capital cycle out of gear. Sickness becomes inescapable.

4.2.4 Project Implementation:

The occurrence of the sickness is mainly during project implementation stage. In fact a combination of the factors like lack of homework in project formation - poor management and environment, delays in the implementation of scheme and the institutional snags is responsible for industrial sickness. Slippages are serious enough to destroy the health of a project. The implementation delays and resultant swelling up of preliminary and preoperative expenses and capital cost prove fatal for many units.

A plastic unit making footwears has replaced the machinery. A new machinery requires more power supply. After replacement the application was made to the electricity board. It was not followed up properly. There were problems in supplying more power. The unit could not get power supply for nearabout two years. The footwear being a seasonal product, he missed the working seasons for two years and finally the unit became sick.

4.2.5 Inadequate Working Capital:

Inadequate or late sanction of working capital assistance or denial of such assistance by banks in the initial stage of a unit clearly constitutes a real cause of sickness. We observe that the real cause of sickness of units, located at M.I.D.C., Kudal is inadequate working capital. Ruchira Wire and Cable, as the electrical producer, faces this problem in our study. This entrepreneur has experience in this line for more than 10 years. He thought of starting this unit in this estate, because such a unit did not exist anywhere in this district. After taking financial assistance from the M.S.F.C., he invested capital in plant and machinery. The banks denied him the necessary working capital since he could not fulfil the requisite procedure in this behalf. In the absence of working capital, fixed assets could not be utilized.

Most of the chemical units which are declared sick, have faced this problem. These units required more workig capital than they actually estimated in their project cost. More working capital is required for these units because the market is 500 Km. away from the location and that is why they cannot get raw material on credit, as well as the speed of turnover has become slow.

In some cases, however, lack of support from bank is a sickness aggravating factor, rather than the basic cause of sickness. The absence of risk-taking attitude and difficulties in formulating a judgement are the major problems so far as banks are concerned.

There is a separate, new working capital account and each time a raw material consignment comes, the margin money contributed by the entrepreneur is automatically adjusted against the old account dues. This practice is causing the unit untold hardships. This is why working capital becomes the most aggravating factor, once sickness creeps in. Inept working capital management is substantially responsible for sickness.

Over investment at the execution stage, as seen in the case of canning unit to appreciate the technical complexities and build provisions to overcome these inevitably created working capital problems. We saw existence of this problem in several sick units, engineering type of units are also facing this problem. Entrepreneurs invest excess capital in plant and machinery. They used to set up machinery of high capacity than what is required actually.

Records pertaining to production, inventory, material consumption, sale, workers and statutory matters are ill-maintained. A drastic consequence of such laxity is that units often have to face adverse legal action, not necessarily because they did not comply with the stutory requirements but because they did not keep the necessary records.

4.2.6 Project Operation:

Errors made during the project formulation and implementation have direct impact on operation. In addition, there are certain mistakes made during the project operation stage itself, which either initiate

or hasten the process of sickness we have identified two commonly observed causes of sickness (during the operation cycle) as below:

i) Errors in marketing strategies

ii) Defects in production, planning and other arrangement.

4.2.7 Excess Capacity:

We observe that a number of entrepreneurs of sickunits had created excess capacity in their units. Almost all engineering type of sick units created 2 to 3 times of the capacity which they actually require. Recently this excess capacity has thrown some plastic and chemical units into sickness because of the gulf crisis.

4.2.8 Management:

The managing style of the entrepreneur, basic entrepreneurial and managerial incompetence, lack of genuine interest, dissensions within management are the features which can render otherwise quite soundly conceived projects sick. An excessively conservative outlook could become a cause for sickness. Likewise an extravagant approach may also be undesirable. The solution lies in evolving a balanced outlook.

4.2.8.1 Mismanagement and Deficient Management:

In some units we find that the project is properly conceived and implemented, but mis-management of the operation of a project turn a well conceived project into a sick project in a very short

period, Management is the art of making optimum use of material and achieving the optimum output at minimum cost. Proper result-oriented and scientific management is a sine qua non for the success of any enterprise.

4.2.8.2 Production Management:

Inadequate attention towards the maintenance management leads to frequent breakdowns and consequent lower capacity utilization, lack of inventory and materials management leads to high inventories and wastatge. In the present study we find that the mismanagement is one of the most important causes of some units.

4.2.8.3 Marketing Management:

While observing the sick units we find that some of the units have become sick because marketing and financial management are faulty. The marketing managements become faulty because the entrepreneurs select wrong products. They depend on a limited number of buyers and inefficient sales promotion activities.

4.2.8.4 Financial Management:

The inefficient management of working capital, i.e., of cash receivable, payable, inventory etc., leads to inability to meet the day-to-day needs of business. It is extremely essential, not only to estimate the working capital requirement on a correct basis but also to so manage its various components that not only the amount locked up in working capital is minimised but that there

is no occasion when the unit finds itself suddenly unable to meet its day-to-day commitments towards suppliers and lenders, employees, goveernment and other interests. It was observed that in a large number of cases, the working capital needs of the assisted units during the period in which they are to reach the level of optimum capacity utilization are not assessed realistically at the time of credit appraisal.