

CHAPTER-V
CONCLUSIONS AND SUGGESTIONS

5.1 Conclusions:

5.1.1 It has been observed on the basis of our study that almost all entrepreneurs are first generation entrepreneurs. They have limited experience of conducting a business. Financial institutions are providing finance to this first generation entrepreneurs, as a result of which the units become sick. The financial institutions have, therefore, to ensure that the borrowers have the required expertise and experience to run the units on viable lines. This fact has also been revealed in a study conducted by the Reserve Bank of India¹ on cause-wise analysis of sickness in industrial units. It was found that out of 378 units 197 (52 per cent) become sick on account of management failure.

5.1.2 The techno-economic appraisal in bank is generally confined to financial aspects based on the past data appearing in the financial statements. The other aspects like technical, marketing, management personnel and external environment etc. do not get due weightage. A bank takes a favourable decision, in case the past balance sheets and profit-loss accounts present a satisfactory picture and future profitability projections as submitted by the borrowers show enough surplus. It is seen in our study that some units do not give a correct

picture in the financial statements and make adjustment in revenue cost and closing stocks to adjust their profits. We find that sometimes the entrepreneurs do not mention necessary accounts and may not be correct.

5.1.3 It has been observed on the basis of our study that almost all chemical units depend upon Bombay as the main market for their raw material and for their sales. Bombay is quite away from this area, i.e., 500 Km.. The transport service for these units is time-consuming as the total area is underdeveloped. After completion of the process of production fifteen days are required for the produce to reach the market and after purchasing the raw material, i.e., chemical, petro-chemical items etc., fifteen days are required to reach at the place of production. Almost for one month the investment is blocked in the transportation. Therefore, the entrepreneurs' budget of working capital does not work out as mentioned in the project report. The entrepreneur requires additional funds for the working of the unit.

5.1.4 It is expected that the financial institutions help their borrowers, i.e., small entrepreneurs in identifying industrial sickness at the incipient stage of sickness. It is generally seen in our study that the units do not get identified as sick in time because of the lack of trust between the financial institutions and the borrowers. The borrowers feel that

the institutions may adopt a stiffer attitude as soon as they come to know that their units are in difficulty. The borrowers do not confide in their financial institution. It is suggested that banks should have periodical meetings with the borrowers to discuss their affairs; such meetings should be formalised by recording minutes and action points for implementation. The meetings should be held at the levels at which accounts are monitored. The methods applied by commercial banks and financial institutions are different in this respect.

Many a time, rehabilitation of sick units gets delayed because neither the person at the branch level nor the borrower are clear as to how a rehabilitation programme is to be prepared. At times branches are also reluctant in reporting and recommending rehabilitation of sick units due to the fact that further risk is involved in such a proposition.

5.1.5 It is observed on the basis of our study that there is a communication-gap between the entrepreneurs and financial institutions. The borrowers do not confide in their banks since they feel that the banks may withdraw their support in case they come to know about the declining trend of the units' performance. Similarly, Branch Managers also keep the problems pending at their level without finding a solution. This communication gap damages industrial unit.

5.1.6 It has been observed on the basis of our study that many of the Engineering units have been set up with a view to getting some orders from 'Mother Units' which were to be set up in the region. But due to some reasons mother units could not be set up; some mother units were set up but in a very short time they were closed. As a result, the small units could not get this market for their products. Moreover, these small units failed in getting an alternative market. Besides, they could not survive in the tough competition prevailing outside. These small units were not in a position to diversify their product and hence they fell sick.

5.1.7 It has been observed in the case of chemical units that the local market is not available and the outside market is far away from the place of location. These units do not have easy access to this market and they are not in a position to offer their products on a competitive basis in the outside market. As a result, they have fallen sick.

5.1.8 In the case of plastic units, it has been observed that there has been excess capacity right from the inception. Naturally, the capacity utilization has been abnormally low. This has been the major cause for sickness.

5.2 Suggestions:

5.2.1 On the basis of our study we suggest that before providing

finances for any unit, the financial institutions should have a close look at the management and organizational set-up. They should develop expertise within the institution or take the help of management consultants for evaluating the management where financial involvement is heavy. They should develop special management appraisal forms which should cover the following aspects:

- Type and size of industry
- Organizational chart covering all important functions
- Qualification, experience and market reputation of the promoters
- Performance of the unit covering production, sales, profit and loss etc.

The appraising officer should carefully study the information supplied about the management. He should also contact the agencies with whom the borrowing unit has some relationship like the management association and other organizations. Every loan proposal should be accompanied by a separate management appraisal sheet and the bank should give due weightage to the findings before sanctioning any loan. In fact, the branches working at the local level may get the 'feel' of the situation and the exact financial standing of the entrepreneur. The credibility aspect should be given preference in the appraisal.

- 5.2.2 Bank and financial institutions should conduct specialised training programmes and seminars not only for their staff but also for entrepreneurs to bring about better understanding. Bank and financial institutions should also take steps to bring about an attitudinal change in their officers dealing with the industrial units so that they adopt helpful postures from the pre-sanction stage and are able to win the confidence of their loanees.
- 5.2.3 The financial institution should give due weightage to other aspects of appraisal. They should look to the performance of other units engaged in similar activities and exchange notes with other banks in case they do not have such units on their lists. They should also engage consultants having enough practical experience in various fields and get their opinion before taking a final decision, particularly in the case where bank does not have the required expertise.
- 5.2.4 It may be suggested that the financial institutions like M.S.F.C. may carefully develop some warning signals and continuously monitor the performance of the units. In the case of incipient sickness, the warning may be immediately communicated to the entrepreneurs. This will enable the concerned unit to take appropriate remedial measures.
- 5.2.5 There is an urgent need to develop the concept of project finance and the financial requirements of the project may

be seen in their totality. These requirements may be scientifically worked out by different financial institutions by sitting together. This package approach would go a long way in arresting industrial sickness.

NOTES AND REFERENCES

- 1 Dr. Joshi, V.K., Management of Industrial Sickness Kuber Associates & Publishers, Jaipur, 1987.