

CHAPTER - VI.
REHABILITATING SICK INDUSTRIES.

"REHABILITATING SICK - INDUSTRIES "

Rehabilitating is one of the remedy which can be used for small industrial units, which are sick and are on the verge of virtual collapse. The rehabilitating measures include greater infusion of funds with little cash obligation in near future or until the sick unit becomes financially viable. The assets and managerial restructures would also help in this endeavour. The procedure should be used in such a way that they result into savings in capital, financial and managerial discipline, better coordination among functional activities etc., leading to the long run viability of the unit and getting confidence of lenders, suppliers, and the investing public.

REHABILITATING MEASURES :

The rehabilitating measures for the sick industrial units be mentioned as under :

- 1) Not declaration of cash dividend, "payment of interest and dividend in terms of shares, divest investment in slow moving stocks, follows a conservative capital investment policy, conversion of debt into equity, improve product quality, alternatives to the utilisation of idle capacity, introducing an efficient information reporting system improve internal coordination, improvement of equity base through rights issues divest investment in non profitable

introducing cost saving devices, reschedule of maturity interest and debt payments, collection of cash and claims promptly, penetration of new markets, avoiding litigation, changes to be made in management team, technical collaboration for savings in capital and costs.

STATE POLICY :

The Central Government has made certain policy towards sick units and they are as under :

- 1) In Industrial policy 1977, it was announced that the government would like to take over sick units on selective basis and appropriate steps with Reserve Bank of India would be taken as early as possible.
- 2) In the Industrial Policy Statement, presented to the Lok Sabha on July 23, 1980, The Government announced that in the case of sick undertaking having potential for revival the government would encourage their merger with healthy units which can restore the viability of the sick units. In order to facilitate such amalgamation the Income Tax was amended in 1977 by relaxing the statute regarding the carry forward and set off of the accumulated business loss and unabsorbed depreciation. The company that takes over the sick units should possess the necessary managerial and financial resources

in order to execute the programme of amalgamation effectively.

While opting for amalgamation, certain factors are to be considered to bring about effective amalgamation.

They are -

- i) The basic viability of the sick units.
- ii) Tax benefit requirement for the rehabilitation.
- iii) The speed and effectiveness of the rehabilitation process.
- iv) Employment generated and product manufactured by the sick unit.

It is also necessary that the amalgamating unit identifies the real causes for non-viability of the amalgamated one and evolves effective programme for the rehabilitation and revival according to circumstances.

- 3) In June 1981, four factors were taken into consideration, while reviving sick units.
 - i) denotification of management followed by the liquidation of the concern.
 - ii) Selling of unit as an ongoing concern.
 - iii) Liabilities of sick units with the permission of High court may be reconstructed.

- iv) the unit may be nationalised through the acquisition of assets.

But in practice the government pumped additional funds into these units through soft loans from RCI, Public financial institution and Schedule banks. Besides, it abrupt and adverse changes in government policies on import, export, licensing, foreign exchange etc., have given serious troubles to many firms. These firms experienced a crisis obliquity. The Government regulation and control has been one of the primary cause of bottleneck in cash flow forecasting of the units. On June 11, 1984, it was announced by the minister of industries that there is a proposal for discussion for setting up in every state review of sickness committees. But it is expected that like labour problems the review of sickness Committees would not work. Thus they may be ineffective instruments of Government machinery, wasting public funds and making no major contribution in the prevention of industrial sickness in the country.

Both the Central Government and the RBI have not been successful in preventing industrial sickness. The usual procedure have been that the lending institution have to wait till a unit gets really sick and the quick fixes are adopted, which is not a solution to this burning problem. Under quick fixes we may include deputation of an officer for administ-

-ration and controlling the finance, finding a party to take over the concern, forcing the firm to make peripheral changes in management team and getting into the new business etc. Government of India by passing of bills in Parliament on August 7, 1984 converted Industrial Reconstruction Corporation of India Limited (**IRCI**) into Industrial Reconstruction Bank of India (**IRBI**). This has been done to overcome the inherent difficulties faced by IRCI in its efforts to rehabilitate and reconstruct sick industrial units and to make it the principal credit agency for revival of sick units. The IRBI's functions would cover not only reconstruction assistance combined with mercantile banking. It would be empowered to take over the sick units under its assistance for the purpose of managing and running them, lease them out or sell them as running concerns or prepare schemes for reconstruction by scaling down the liabilities with the approval of the Central Government. It would be empowered to take certain decisions in conformity with MRPT and FERA to permit multinational houses to participate in reconstruction plans for sick units and expedite cases of amalgamation.

In the union budget 1985-86, the Government issued harsh guidelines and proposed that management which are held responsible for making units sick would be black listed. Such

managements would not be given Government assistance or assistance from the banks and financial institutions for their existing units and new ventures. It was also proposed to set up a Board for Financial and Industrial Reconstruction (BFIR) which would provide a speedy mechanism for amalgamation, mergers, and devise such other solution as might be necessary to deal with the problem of sick units in the large and medium sector.

In the pre-budget economic survey (1984-85) it was observed that ad-hoc remedies and open ended commitments to keep the sick units alive had only aggravated the situation and had failed to provide a long term solution to the problem. The Finance Minister Mr. V.P. Sing, therefore, assured that the Government would come forward with a comprehensive strategy to deal with industrial sickness which has become a chronic feature of Indian Industrial scene. It was in consonance with the assurance that the sick Industrial Companies (Special provisions) Bill was introduced in the Lok Sabha on Aug. 29 1985.

ROLE OF RESERVE BANK :

The steps taken by Reserve Bank of India (RBI) are basically of the organisational nature and intends to monitor and coordinate various agencies already involved in the task of revival of sick units. Taking a serious view of spreading

industrial sickness, a sick Industrial Undertaking Cell was created by RBI., in 1976. Under the Department of Banking operation and Development to function as a clearing house for information relating to sick units and also to act as a co-ordinating agency between the Government, banks, financial institution and other agencies for tackling the various related issues. The Cell has been closely monitoring the banks and also taking remedial action. With a view to checking industrial sickness the cell has issued suitable instruction to the banks.

State Level Inter- Institutional Committees have been set up at all the regional offices of the DBOD of RBI for the purpose of ensuring better co-ordination between the banks, State Governments, Central Government, Financial Institution and other agencies. These committees are being strengthened and activated.

The standing Co-ordination Committee appointed on the recommendation of Bhucher Committee to consider issues pertaining to co-ordination between banks and term lending institution as an 'On going basis', was reconstituted under the chairmanship of Shri A. Ghosh in August 1983. The revival of Standing Co-ordination Committee is expected to help in

speedier and effective implementation of schemes for revival of potentially viable sick units.

A special cell has been set up within the Rehabilitation Finance Division of RBI for attending to references from banks in respect of their sick and problem cases. As regards the small scale industries sector, RBI has issued suitable guidelines to the banks with a view to ensuring that the potentially viable sick units and the Small Scale industries sector receive due attention and timely support from banks.

ROLE OF BANKS AND INSTITUTIONS :

In accordance with Government's policy, banks and financial institutions are required to make efforts to identify sickness in an industrial unit at the incipient stage. For this purpose banks have been told to set up cells which would use the information system suggested by the Tandon Study Group and detect early warning signals of incipient sickness in industrial undertakings. The RBI has listed warning signals which the commercial banks have been asked to monitor. They are also required to carry out viability studies and nurse sick units which are considered potentially viable as well as monitor the progress of nursed units. Accordingly, they draw up rehabilitation programmes in respect of the potentially viable units on a case by case basis. The rehabilitation

programmes are tailormade to suit the particular cases and contain both short-term and long-term measures which include financial concessions like waiver of penal interest, finding, of interest, reduction in the rate of interest and margin money, rescheduling the over due liabilities for recovery in a phased manner depending upon the cash generation, grant of need based working capital and term loan facilities and other measures like change in management, proposals for merger with healthy units etc. Banks/Institutions also nominate directors on the board of the assisted companies in terms of the provisions of the loan agreements for the purpose of ensuring the conduct of the affairs of the unit in accordance with sound, financial principles. In cases where the attempts of banks/institutions in nursing such units fail and also in cases where units are considered no viable, they may safeguard their interests by recalling the advances, enforcing the securities and filing legal suits, etc. In such cases no further rehabilitation assistance would be sanctioned by them.

Banks normally put the industrial units which are considered as viable under a nursing programme to bring them back to normalcy. Accordingly, some 2761 units in all categories have been reportedly put back to health by the banking institutions till June 1984. The outstanding bank credit involved in these units was Rs. 1,451 crores. Out of the total 337 large

sick units which have been identified as viable, 228 units with outstanding bank credit of Rs. 1,21,653 crores have been put under nursing programme. In the small scale sector, of the 5,929 sick units identified as viable 2,167 units with outstanding bank credit of Rs. 167.01 crores have been put under nursing programme by the financing banks.

AVOIDING SICKNESS :

- - - - -

The Government has been evolving strategies and policies to arrest industrial sickness to a certain extent. There appears to be no part in assisting sick units so long as they are mismanaged. It was once rightly observed thus : "there is unwillingness on the part of many industrial families and groups to professionalise management, bring in the best talent regardless of state, caste, language and give enough operational freedom for an industrial unit to function efficiently". It is high time that industries adoptt professionalised management and the sick units turn to management consultants for expert advice on their problems.

'Well begun is half done' goes the saying. A unit started with proper project evaluation and which adopts the following long term measures can avoid sickness :

- " (i) careful scrutiny of the project at the initial stages;

- (ii) continuous review of the economic viability of the project;
- (iii) A re-examination of the capital structure of the project;.
- (iv) streamlining the system of follow-up by the financial institutions;
- (v) Approaching of the problem by the financial institutions with a lot more inter-institutional coordination than obtains at present."

WHAT CAN BE DONE :

Industrial sickness is a phenomenon con-commitment of the very process of industrialisation, in which vigorous and well managed units grow, while poorly conceived, inefficient and marginal units languish and gradually disappear from the industrial scene. However, in developing countries where capital is scarce and alternative employment opportunities are relatively scarce, industrial sickness is a matter of serious concern and more so, if the sickness seems to be growing.

In the recent times Government is reported to be thinking of adopting some penal measures to deal with this problem. But mere resort to severe penalties will not provide any solution unless the causes of industrial sickness are clearly identified and understood. In general, management would not deliberately

like to make its industry sick. Very often it is found that management is the victim of circumstances beyond its control including Government's policies, labour's attitude and approach of banks. For instance, too much importance has been given to develop small scale units in recent years. But this has been done at the cost of medium and large units. No proper consideration has been given for the revival of the medium/large scale units or how to bring them out of sickness or prevent further sickness.

Presently, Union Government is the largest buyer of industrial products. Such purchases are estimated at 75 per cent of the total demands for the manufacturing items. Its purchase policy can, therefore, play an important role in the growth of industries on healthy lines. But it a matter of great regret that this policy is being implemented so as to cause and aggravate industrial sickness. For example, small scale industries are favoured by allowing them excise relief and price preference. This places several medium/large scale units at a great disadvantage. As a result, the Government business is being diverted to small scale units while medium and large scale units languish for want of orders and even healthy units become sick in course of time. So, Government should reframe its purchase policy judiciously so that all-sectors-small/medium/large can flourish and may not become prone to sickness;.

One of the main reasons for industrial sickness now a days is low labour productivity. Unfortunately, this aspect has received little attention in dealing with the problem of industrial sickness. Finance Minister in his last budget speech said that "workers are the worst victims of industrial sickness." It is all the more important, therefore, that in the interest of workers themselves every effort should be made to avoid sickness. For this Government should issue directive that increase in wages must be linked with productivity etc. Such an approach is the only solution to involve workmen to participate directly and actively for prevention of industrial sickness.

The role of banks in proper and smooth functioning of an industry is very well recognised now. It is generally observed that at times banks do not consider the need based requirements of working capital. The assistance provided by them is either totally inadequate or at times delayed affecting adversely the health of the units concerned. Therefore, it should be ensured that the need based funds are promptly released by banks to enable smooth and proper functioning of the units concerned so that industrial sickness could be alleviated and future sickness can be prevented.

It is apt to point out here that different banks have developed a particular industry specialisation by virtue of predominance of borrower units of the particular industry in

their loan portfolio. This industry specialisation can be put to a good use for revival of sick units of the particular industry, be it financed by the concerned banks themselves or otherwise. The banks should, therefore, consider swapping of sick industrial units to realign them to their respective area of expertise. The proposed specialisation would not only contribute to averting industrial sickness, but also to effect economy in the bank cost of appraising new proposals.

Though it has been repeatedly argued that the "Survival of the fittest" approach be allowed to decide the issue to the subversion of all other considerations, yet being a welfare state, Indian conditions do not seem to be fit for that. It is fully acknowledged that national stakes are high. As industrial units die in succession, national income is reduced, poverty and unemployment is increased, private funds and government revenue are jeopardised. Political dimensions of this chain of events and the industrial miseries of thousands of people are added considerations. The health of banking system itself is being gradually destroyed. More often, because while enumerating the parameters for provision of reliefs or concessions the thrust invariably is upon concessions and sacrifices to be made by bank (a Sick Industrial Companies (Special Provisions) Act 1985.) This requires a drastic revision since in a democratic country like ours the government's interest are best served in seeking the onset

of revival in sick industrial companies. Hence, the State Government and the Union Government should be the first ones to be required to make sacrifices. These include sales-tax loan, State Government guarantee for fresh advances, exemption from payment of power tariff, exemption from Central excise duty, income tax relief to banks in respect of interest suspense account, deferment of provident fund waiver of penalties etc. Banks and term lending institutions should then be asked to provide interest relief. At third stage banks and term-lending institutions should be called upon to write off their principal amount. The last group in this warrant of sacrifices should be the managers and the workers : the axe should fall on them as a measure of last resort. The order should in general be followed and not made a rule as the exceptions are always there.

It is often complained that many a rehabilitation package fail to yield results due to considerable time-lag between its conception and implementation. The timelags are often the result of delay in emergence of a consensus of package and procedural demands of the bureaucracy. The situation demand quick decision making and toning up of the administration. At the same time the will of the legislature is required to wipe out the said commentary on our system that there is as of now, no law in India for dealing with the problems of preventing industrial sickness. The law of

revival, viz. Sick Industrial Companies (Special Provisions) Act, 1985 and other existing laws only touch the periphery of the problem of revival. Hence, much better and much rigorous methods of reviving sick industries need to be evolved and evolved speedily if doling out of good money to chase the bad ones are to be stopped.

TABLE NO. 6.1

102

TABLE SHOWING :
 ROLE OF BANKS & FINANCIAL INSTITUTIONS IN COMBATING
 INDUSTRIAL SICKNESS

	Year		
	1982	1983	1984 (June)
1. No. of Borrowing Units			
a) Large & Medium	56,700	59,535	62,610
b) Small Scale Units	10,49,675	12,49,200	13,57,000
2. No. of Sick Units	60,173	80,110	83,597
a) Large	444	491	513
b) Medium	1,178	1,256	1,437
c) Small	58,551	78,363	81,647
	(Rupees in Crores)		
3. Total amount Outstanding to Sick Units :	2,585.33	3,101.29	3,273.91
a) Large	1,790.60	2,014.33	2,112.44
b) Medium	225.76	357.97	373.17
c) Small	568.97	728.99	788.30
4. Diagnostic Studies Undertaken by Banks:			
a) Large & Medium Units	1,621	1,747	1,950
i) Viable	767	796	824
ii) Non-viable	653	720	854
iii) Viability yet to be decided	201	231	272
iv) Units put under nursing prog.	591	618	594
b) Small Scale Units	58,551	78,363	81,647
i) Viable	5,479	6,613	5,929
ii) Non-viable	45,763	62,415	65,768
iii) Viability yet to be decided	7,309	9,335	9,950
iv) Units put under nursing prg.	1,978	2,301	2,167
5. Credit advanced by Banks to all Units (Rs. in crores)	32,657.4	39,469.0	42,753.0
Amount outstanding to sick units	2,585.33	3,101.29	3,273.91
Percent of total amount to sick units.	7.9%	7.9%	7.7%
6. Total SSI borrowing units and amount outstanding to them (Rupees crores in bracket)	10,49,675 (4,464)	12,49,200 (5,305)	13,57,000 (5,864)
7. No. of Units revived by banks	5,099	8,763	N.A.
8. Amount sanctioned/disbursed by financial institutions	Rs. in crores		
(all-India basis)	1981-82	1982-83	1983-84
	2,446.00	2,884.20	2,657.00