C H A P T E R - IV

PROBLEMS OF INDUSTRIAL SICKNESS IN COTTON TEXTILE WITH SPECIAL REFERENCE TO BARSHI TEXTILE MILLS

4.1 The Problem of Industrial Sickness. Its natures and magnitude.

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CHAPTER - IV

PROBLEMS OF INDUSTRIAL SICKNESS IN COTTON TEXTILE WITH SPECIAL REFERENCE TO BARSHI TEXTILE MILLS.

4.1 THE PROBLEM OF INDUSTRIAL SICKNESS - ITS NATURE AND MAGNITUDE.

Industrial sickness is emerging as one of the most complex economic problems facing the country in recent years. Increasing incidence of such sickeness has been causing great concern to employees, managers, shareholders, creditors, government and banks and financial institutions. Apart from aggravating the serious problem of unemployment, it impedes the use of a available installed capacity, locks up scarce investible financial resources, affects investment in the economy and thereby the process of industrial development.

According to the information available, up to June 1986 there were 689 large, 1,230 medium and 1,28,687 small scale sick units with outstanding bank credit of Rs. 3,239 crores Rs. 242 crores and Rs. 1,184 crores respectively. What is more alarming is that this growing phenomenon is assuming greater dimension with the passage of time. The number of sick units in the country is increasing year by year and the rise in outstanding bank advances against them bears testimony to the fact that the industrial sickness is not a thing of the past or a mere passing phase but a continuing phenomenon (Statement I).

The bulk of the outstanding bank credit to the sick industrial units up to June 1986 was accounted for by 689 large industrial sick units (0.5 per cent of the total number of sick units) and the credit outstandings against them was of the magnitude of Rs. 3,239 crores (69.4 per cent of the total bank credit to sick units). Industry-wise analysis indicates that as at the end of June 1986, there were 186 textile units and 175 engineering and electrical units accounting for 35 per cent and 24 per cent respectively of the total out to Rs. 2 crores) accounted for 11.3 standing bank advances to the sick units (Statement II).

An analysis of the state-wise distribution of large sick units and their outstanding credit indicates that seven states (Maharashtra, West Bengal, Uttar Pradesh, Gujarat, Tamil Nadu, Karnataka and Andhra Pradesh) together accounted for 569 sick units involving an outstanding bank credit of Rs. 2,786.52 crores (86.0 per cent of total outstanding bank credit against sick units) as at end June 1986 (Statement III)

Frequency distrinution of the outstanding of large sick industrial units according to their size, to the total outstandings as at the end of June 1986 indicates that 65.1 per cent of total bank credit locked up in the large sick indusstrial units is accounted for by only 163 units in the range of 'over Rs. 5 crores', while 277 units in the lowest range (i.e. up per cent) (Statement IV).

TABLE SHOWING MAGNITUDE OF SICKNESS

Table No. 4.1

STATEMENT - I

DISTRIBUTION OF SICK INDUSTRIAL UNITS

(Amount in crores of rupees)

As at the End of	Small Scale SickIndustrial units		Medium Scale Sick Units		Large@Sick Units		Total	
	No.	Amount Outstanding.	No.	Amount Outstanding.	No.	Amount Outstanding.	No.	Amount Outstanding.
	1	2	3	4	5	6	7	8
June 1980	22,325	292.75	1026	219.17	389	1232.70	23,740	1,744.62
June 1981	22,360 (+0.2)	321.52 (+9.8)	960 (-6.4)	137.16 (-37.4)	422 (+8.5)	1453.29 (+17.9)	23,742 (-)	1,911.97 (+9.6)
June 1982	26,973. (+20.6)	393.67 (+22.4)	1020 (+6.2)	176.14 (+28.4)	435 (+3.1)	1728.95 (+19.0)	28,428 (+19.7)	2,298.76 (+20.2)
June 1983	64,388 (+138.7)	626.52 (+59.1)	1211 (+18.7)	253.05 (+43.7)	463 (+6.4)	1913.10 (+10.6)	66.062 (+132.4)	2,792.67 (+21.5)
June 1984	81,647 (+26.8)	788.30 (+25.8)	1437 (+18.7)	373.17 (+47.5)	513 (+10.8)	2112.44 (+10.4)	83,597 (+26.5)	3,273.91 (+17.2)
June 1985	97,890 (+19.9)	954.65 (+21.1)	1181 (-17.8)	195.13 (-47.7)	597 (+16.4)	2655.39 (+25.7)	99,668 (+19.2)	3,805.17 (+16.2)
June 1986	1,28,687 (+31.5)	1,184.22 (+24.0)	1230 (+4.1)	242.37 (+24.2)	689 (+15.4)	3238.64 (+22.0)	1,30,606 (+31.0)	4,665.23 (+22.6)
Average Annual Rate of Growth	39.6	27.0	3,9	9.8	10.1	17.6	38.1	17.9

Contd. Table No. 4.1

Those individually enjoying aggregate bank credit limit of Rs. 1 crore and above from the banking system.

Note : Figures in brackets represent percentage variations over previous year.@

Source : Reports on Currency & Finance.

STATEMENT - II

SICK INDUSTRIAL UNITS @ AND OUTSTANDING BANK CREDIT

Table No. 4.2 (Rs.Crores)

Industry	End-June 1984		End-June 1985		End-June 1986	
	No. of Units.	Amount of Outstanding Bank Credit	No. of Units.	Amount of Outstanding Bank credit	No. of Units.	Amount of Outstanding Bank Credit
1	2	3	4	5	6	7
1. Engineering & Electricals	121	437.14 (20.7)	153	629.31 (23.7)	175	788.10 (24.3)
2. Iron & Steel	35	160.29 (7.6)	39	196.48 (7.4)	38	166.38 (5.1)
3. Textiles	140	697.87 (33.0)	162	962.39 (36.2)	186	1118.38 (34.5)
4. Chemicals	29	157.35 (7.5)	34	113.67 (4.3)	39	140.08 (4.3)
5. Sugar	43	164.16 (7.8)	46	148.16 (5.6)	47	177.02 (5.5)
6. Jute	36	120.45 (5.7)	44	151.65 (5.7)	43	199.58 (6.2)
7. Rubber	16	123.16 (5.8)	16	126.14 (4.7)	16	127.17 (3.9)
8. Cement	2	9.08 (0.4)	3	9.45 (0.4)	5	41.32 (1.3)

Table No. 4.2 Contd...

1	2	3	4	5	6	8
9. Miscellaneous	91	242.94 (11.5)	100	318.14 (12.0)	140	480.61 (14.8)
Total	513	2112.44 (100.0)	597	2655.39 (100.0)	689	3238.64 (100.0)

Note : Figures in brackets are percentages to total

@ Those individually enjoying aggregate bank credit limit of Rs. 1 crore or more from banking system.

Source : Reports on Currency & Finance.

STATEMENT - III

STATE-WISE CLASSIFICATION OF SICK INDUSTRIAL UNITS @ AND OUTSTANDING BANK CREDIT

Table No. 4.3 (Rs.crores)

State/Union Territories	End-June 1984		End-June 1985		End-June 1986	
	No.of Units	Amount of Outstanding Bank Credit.	No. of Units	Amount of Outstanding Bank Credit.	No.of Units	Amount of Outstanding Bank Credit
1	2	3	4	5	6	7
1. Andhra Pradesh	24	45.26 (2.1)	31	88.84 (3.4)	39	114.28 (3.5)
2. Assam	3	6.04 (0.3)	3	6.29 (0.2)	6	15.37 (0.5)
3. Bihar	13	37.88 (1.8)	16	41.73 (1.6)	16	48.87 (1.5)
4. Chandigarh	-	-	1	2.35 (0.1)	2	3.34 (0.1)
5. Delhi	2	3.11 (0.2)	4	8.59 (0.3)	5	10.30 (0.3)
6. Goa	5	12.65 (0.6)	5	14.28 (0.5)	4	11.09 (0.3)
7. Gujarat	51	192.81 (9.1)	54	263.58 (9.9)	66	332.20 (10.3)
8. Haryana	12	29.15 (1.4)	16	42.05 (1.6)	15	42.58 (1.3)
9. Karnataka	28	196.24 (9.3)	31	151.66 (5.7)	36	183.79 (5.7)
10. Kerala	16	82.79 (3.9)	17	125.51 (4.7)	18	130.25 (4.0)
11. Madhya Pradesh	20	57.75 (2.7)	22	73.99 (2.8)	26	96.27 (3.0)

contd..2/-

Contd. Table No. 4.3

1	2	3	4	5	6	7
12. Maharashtra	100	491.34 (23.3)	131	724.47 (27.3)	151	898.54 (27.7)
13. Orissa	4	24.37 (1.2)	6	28.88 (1.1)	9	37.84 (1.2)
14. Pondicherry	3	10.08 (0.5)	3	10.55 (0.4)	3	11.62 (0.4)
15. Punjab	3	5.17 (0.2)	3	5.37 (0.2)	5	10.83 (0.3)
16. Rajasthan	12	51.13 (2.4)	12	38.17 (1.4)	10	31.80 (1.0)
17. Tamil Nadu	46	150.88 (7.1)	48	109.83 (7.2)	55	203.69 (6.3)
18. Uttar Pradesh	57	240.30 (11.4)	63	287.18 (10.8)	72	315.80 (9.7)
19. West Bengal	114	475.48 (22.5)	131	551.07 (20.8)	150	738.22 (22.8)
20. Tripura	-	-	-	-	1	1.96 (0.1)
Total	513	2112.44 (100.0)	597	2655.39 (100.0)	689	3238.64 (100.0)

Note : Figures in brackets are percentages to total.

@ Those individually enjoying aggregate bank credit limit Rs. 1 crore or more from banking system.

Source: Reports on Currency & Finance.

STATEMENT - IV

Table No. 4.4 BANK CREDIT TO LARGE SICK INDUSTRIAL UNITS

Range (Outstanding advances to Individual Units)	June 1985 Total		Of which Engineering and Electricals		Of which Textiles		June 1986 Total		Of Which Engineering & Electricals		Of Which Textiles	
	No.of Units	Amount Outstanding (Rs. Crores)	No.of Units	Amount Outstanding (Rs. Crores)	No.of Units	Amount Outstanding (Rs. Crores)	No.of Units	Amount Outstanding (Rs. Crores)	No.of Units	Amount Outstanding (Rs. Crores)	No.of Units	Amount Outstanding (Rs. Crores)
Upto Rs. 2 crores	249	330.00	74	103.12	54	71.81	277	366.39	77	101.63	61	76.88
Between Rs.2-3Crores.	108	270.95	27	69.41	22	54.36	139	344.71	35	86.54	33	81.96
Between Rs.3-4 Crores.	73	249.71	14	46.64	23	79.79	69	235.08	19	64.83	17	57.45
Between Rs.4-5 Crores.	36	161.04	8	34.90	8	35.54	41	183.89	10	45.80	10	44.57
Above Rs.5 Crores	131	1643.69	30	375.24	55	720.89	163	2108.57	34	489.30	65	857.52
Total	597	2655.39	153	629.31	162	962.39	689	3238.64	175	788.10	186	1118.38

Those individually enjoying aggregate bank credit limit o Rs.1 crore or more from the banking system.

Source : Reports on Currency & Finance.

STATEMENT - V

UNITS FINANCED BY BANKS

Table No. 4.5 (FOR THE PERIOD ENDED JUNE 1985 AND JUNE 1986) (NOVEMBER)

Sector	Viable Units		Non-viable Units		Viability not decided		Total Sick Units		Units put under Nursing programme.	
	June 1985	June 1986	June 1985	June 1986	June 1985	June 1986	June 1985	June 1986	June 1985	June 1986
A Small Scale Industrial Units.	6505 (236,84)	13028 (270.74)	79378 (623.08)	103708 (793.65)	12007 (94.73)	11951 (119.83)	97890 (954.65)	128687 (1184.22)	2079 (66.85)	2655 (187.48)
B Other Units (Medium Scale and Large Units)	741 (1651.11)	734 (1911.44)	812 (815.82)	975 (1258.52)	225 (383.59)	210 (311.05)	1778 (2850.52)	1919 (3481.01)	581 (1370.34)	578 (1526.36)
C All Units (A + B)	7246 (1887.95)	13762 (2182.18)	80190 (1438.90)	104683 (2052.17)	12232 (478.32)	12161 (430.88)	99668 (3805.17)	130606 (4665.23)	2660 (1437.19)	3234 (1713.84)

Figures in brackets denote Amounts outstanding in Rupees crores.

Source : Reports on Currency & Finance.

4.2 LEGAL AND TECHNICAL ASPECTS OF SICKNESS.

To indentify a sick unit, we should have a thorough understanding of definitions of a sick unit. Having indentified a sick unit, it is necessary to know causes of sickness. And for preventive and curative action signals of sickness, should be noticed properly and timely. It is in this regard that this Chapter discusses a few useful topics such as classification of borrowal accounts, definitions of a sick unit, causes of sickness and measures of sickness. Preventive and curative measures are discussed in the subsequent chapters.

1. Classification of Borrowal Accounts.

There are four types of borrowal accounts viz. regular irregular, sick and sticky. These accounts are a classified taking into consideration the conduct of cash credit Account. These are defined as under.

i) A regular account is one whose outstanding are within the drawing powers or the limits sanctioned.

ii) An irregular account is one which outstandings are for a temporary period either beyond the drawing powers based on the securities on which they are drawn or beyond sanctioned limits even though covered by the securities.

iii) A sick account is one which is maintained irregularly for a longer period and is not so serious as to threaten the bank with an immediate loss. This account loss. This account would need close follow-up and careful nursing.

iv) A sticky account is one in which case there are no operation in the account for a longer period due to reasons such as closure of the factory etc.

2. Behaviour of A Borrowal Account.

A firm cannot become sick immediately. It has to go through the earlier phases of health, viz. regular and irregular. Due to uncertainties and seasonality in business. The unit has to operate at a lower capacity. As a result of this, the unit maintains irregularity in the account and becomes 'irregular'. This irregularity is temporary in nature and therefore, the banker allows this irregularity for a certain period hoping that the difficulties are temporary such difficulties may include.

- Non-availability of raw material
- Labour strike
- Power-cut
- Shortage of working funds.
- Machinery breakdown
- Rejection of major orders, etc.

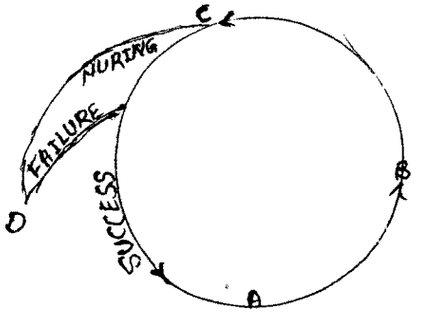
After overcoming the difficulties, the accounts once again becomes 'regular.'

Many time, these difficulties may remain unsolved and therefore the irregularity in the accounts persists for a longer period. In a majority of cases even the interest is unpaid. This add to irregularity continuously. Here, the banker lives

with the irregularity for quite sometime without providing additional funds. He may relax the terms and conditions, if necessary. He may also continue to make securities more secured. Then a point comes when the banker has to decide either to with the firm or to take legal proceedings. He will continue to assist the firm if two conditions are fulfilled.

i) The borrower's integrity is still undoubted.

ii) There are fair chances of recovery because the project is still feasible.



A) REGULAR

B) IRREGULAR

C) SICK

D) STICKY

Normally for the benefit of banker and borrower such proposals are considered for nursing. Thus, the account becomes sick. After passing through the nursing period, the account comes back to normal health. Here, a few accounts cannot revive the health position and therefore become sticky.

The different phases of health, viz. regular, irregular, sick and sticky are shown in the diagram.

3. Definitions of a sick Unit

There are a number of definitions of sick unit besides the one discussed above. We shall examine all the relevant definitions.

i) The first attempt at defining a sick unit was made by the State Bank Of India in 1972. Accordingly a sick unit was defined 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 accoutn. This definition becomes incomplete, if the cash credit account does not reflect the major business transactions of the firm. Hence, further attempt was made to redefine the sick unit.

ii) The State Bank Of India study team on small scale industrial Advances (1975) defined a sick unit as :

"Aunit which fails to generate internal surplus on continuing basis and depends for its survival on frequent infusion of external funds."

This definition is largely considered because it considers adequacy of internal generation of funds based on the operational performance. But this definition needs explanation as how long the unit has failed to generate internal surplus. This definition does not clarify the debt/equity ratio of sick units. Therefore, weshall examine other definitions.

iii) At a recent seminar on sick industries, organised by the Reserve Bank Of India, a sick unit was defined as :

" A unit which is incurring cashlosses."

Normally cash losses are calculated as under :

EXAMPLE :

		Rs. in Lakhs	
Net Sales	..	200	
Less: Cost of Sales	..	-220	(cost of sales includes Depreciation at 10%)
Loss: (Before tax)	..	- 20	
Less: Taxes	..	--	
Net Loss (After tax)	..	-20	
Add : Back Depreciation	..	10	
Cash loss or cash flow from Operations (Deficit)		-10	

Here, the sales revenues are inadequate to meet cost of sales and therefore the end result of operations shows a negative figure.

This definition does not state how long the unit should incur losses. Similarly, it does not speak about the quantum of cash losses. These points are subsequently clarified in one of the circulars issued by the Reserve Bank Of India.

4. According the R.B.I. Circular.

" A unit may be considered as sick if it has incurred cash loss for one year and 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 of current ratio of less than 1:1 and worsening debt equity ratio."

The circular clarifies that the sick units require a comprehensive rehabilitation programme and intensive care over a period and should be distinguished from those units which merely indicate incipient sickness calling for close watch and preventive remedial action on the part of the banks.

THE ACT

The Government of India enacted the Sick Industrial Companies (Special Provisions) Act. 1985, on the recommendations of the "Committee to Examine Legal and Other Difficulties Faced by Banks and Financial Institutions in Rehabilitation of Sick Industrial Undertakings and Suggest Remedial Measures Including Changes in Law", (Tiwari Committee). It defines an industrial company (being a company registered for not less than seven years) as sick when it has at the end of any financial year accumulated losses equal to, or, exceeding its entire net worth and also has d suffered cash losses in such financial year and the financial year immediately preceding such financial year.

However, in view of the need to initiate remedial measures much before the net worth is fully eroded, banks have been advised to take necessary remedial steps in accordance with the Reserve Bank Of India's guidelines in respect of industrial units at the stage of 50 percent erosion of their net worth. Such units will be termed as 'weak' units to distinguish them from 'sick industrial companies' as defined in the Act. An industrial undertaking will be classified as 'weak' if at the end of any accounting year it has

i) Accumulated losses equal to or exceeding 50 per cent of of its peak net worth in the immediate preceding five accounting years;

ii) A current ration of less than 1:1; and

iii) Suffered a cash loss in the immediately preceding accounting year.

The above classification into 'sick' and 'weak' units will, however, not apply to small scale units (SSI units) in respect of which a separate definition is framed under the guidelines issued by the Reserve Bank. Accordingly an SSI unit should be considered 'sick' if it has (a)incurred cash loss in the previous accounting year and 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 and/or (b) continuously defaulted in meeting four consecutive quarterly instalments of interest or two half-yearly instalments of principals on term loans and there are persistent irregularities in the operation of its credit limits with the bank. While both the conditions (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either alternative (a) or (b) is satisfied in the case of the tiny and decentralised sector units.

4.3 SYMPTOMS OF SICKNESS

Banker normally gets several symptoms. An exhaustive list of symptoms cannot be prepared but we shall examine major symptoms of sickness.

1. Persisting irregularity in cash credit account.
2. Slow turnover in the acccunts.
3. Bills/Cheques returned unpaid.
4. Routine transactions with the other bank.
5. Lodging bills or discounting cheques for amounts in excess of genuine business transactions.
6. Large cash drawing.
7. Irregularity in submission of stock statements.
8. No. movement in stock position.
9. Failure to insure the stock adequately.
10. Heavy rejection of goods despatched.
11. Frequent delays in submission of balance sheet and other information.
12. Defaults in borrowing business commitments and fulfilling statutory requirements.
13. Suppliers of raw materials not being fully satisfied.
14. Heavy dependence on external funds.
15. Sudden withdrawals of deposits from friends and relatives.
16. Continuous decline in production and sales.

17. Continuous increase in losses.

18. Increase in expenses not written off.

19. Doubtful debts not provided for.

20. Undepreciated fixed assets.

21. Unsatisfactory market report.

22. Recession Started in Industry.

23. Unfavourable change in Govt. policy as regards import and export policy, excise duty etc.

24. Frequent reconstitution of a firm during a year.

25. Frequent request for enhancement of credit limits.

26. Labour unrest.

27. Major change in valuation of stock and depreciation method.

28. Death of a key person in the management.

29. Disputes among partners and directors.

30. Continuous decline in share price.

4.4 SOURCES OF THESE SYMPTOMS

Most of the symptoms mentioned above could be obtained from the following sources.

1. Ledger Date :

This shows the pattern of activities of a borrower in our books. This also shows the swings in the business activities, the dealing practice and quality transactions, depending upon unpaid and overdue bills. Thus, a study of these aspects gives us the conduct of the account of a borrower.

In the case of sick units, conduct of the account is unsatsfactory. We can obtain the following signals from the study of the ledger page data.

i) Persisting irregularity in the account.

ii) Slow turnover in the account (particularly during peak period).

iii) Payment to unrelated parties.

iv) Routine transactions with other banks.

2. Stock Statements and Factory visits :

A study of stock statements would indicate the movement of stocks dueing the given period. If there is no movement in stock over a period of time, we can get the signal of sickness, from the study of stock statements we can obtain the following signals.

i) Irregularities in the submission of stock statements.

ii) High inventory build-up in relation to the volume of business.

iii) Most of the inventory is unsaleable and obsolute. Additional signals could be obtained during the stock verification.

i) Stock mentioned in the statement is not related to the stock register mainta ned by the borrower.

ii) The quality of the stock is very poor.

iii) Mis-appropriation of stock.

3. Discussion with borrowers whenever banker and borrower meet on a regular basis a few points such as progress in business conduct of the borrowal account, specific business problems, etc. are discussed such a meeting provides useful information and when the same is studied the following signals are indicated.

i) Major breakdown in plant and machinery.

ii) Labour on strike.

iii) Change in management.

iv) Sudden death of a key person in the mangement.

v) Disputes among the partners/directors.

vi) Frequent reconstitution of the firm.

vii) Frequent request of enhancement of limits.

4. Analysis of financial statement :

The financial statements include balance sheet and profit and loss account. These are submitted annually. A systematic study of the balance sheet by using analytical tools, can enable us to get the following signals.

i) Continuous decline in profits or increase in losses.

ii) Highly debt burdened.

iii) Running short of working funds.

iv) Negative stake of the entrepreneur.

v) Diversion of funds.

vi) Change in accounting methods relating to valuation of stock and depreciation.

5. External Sources :

Additional information could be obtained from external sources, which include market reports, press reports, suppliers of materials consortium bankers and other firms. We get the following signals from these external sources.

i) Recession in industry.

ii) Suppliers of materials not being fully satisfied.

iii) Unsatisfactory market reports.

iv) Sharpfull in share prices.

v) Unfavourable change in govt. policy as regards imports and exports.

vi) Routine transactions with other banks.

4.5 BALANCE SHEET OF A SICK COMPANY

If we estimate what could be the balance sheet of a sick unit as a result of the above causes we have seen earlier that the inadequate internal generation of cash is the root cause of sickness. Therefore, both assets and liabilities in the balance sheet are affected as under :

CAPITAL & LIABILITIES	ASSETS
1. CURRENT LIABILITIES	CURRENT ASSETS
a) Short Term Borrowings would be high and indiscriminate	Current Assets Stand debted and whatever exist would consist of
b) There would be some unpaid statutoty liabilities including wages and Bonus.	a) Dead Stock and Non-moving inventory
c) Supplies would remain unpaid for a long period.	b) Overdue debts mostly irrecoverable.
d) Considerable amount of contingent liabilities would exist mostly due to law suits.	c) Almost no cash.
2. TERM LIABILITIES	FIXED ASSETS
Most of the Borrowing would remain unpaid and continue to increase with interest debits.	These would appear inflated and non-realisable
3. EQUITY (CAPITAL & SURPLUS)	INTANGIBLE ASSETS
Equity is usually wiped out and would stand negative.	Those including losses and capitalised expenses would be prominent.

SOURCE : How to prevent Industrial Sickness Symptoms & Rehabilitation. Sudarshan Lak, 1979.

No specific indicators are shown

4.6 CAUSES OF SICKNESS

The more important causes for sickness of an existing industrial unit can be those relating to production, marketing, finance, industrial relations and lack of long-range policy and controls. All these causes stem from the single causal factor i.e. lack of management. According to the Tiwari Committee's Report[1], an analysis of large scale sick units shows that deficiency in management was as major factor accounting for 52 per cent of thes cases. We have listed out the major causal factors.

1. MANAGEMENT :

The most important cause for an ailment of an industrial enterprise is attributed to lack of managerial competence. This is so, as it is the management which conceives of a project and puts it into operation by arranging the location other infrastructural requirements, finance, machinery and equipment and

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SOURCE : 1. 'COMMERCE' Weekly April 28, 1988.

recruitment of workmen. All the units in an industry have access to pretty much the same resources. The one thing that distinguishes a successful enterprise from an unsuccessful one would be the quality of its management.

A study Team of the State Bank Of India in its report has stated that a large number of units studied by them lacked management expertise. This, they say, is evident from the fact that there was no planned approach to the activities in the key functional areas, such as, finance, marketing and production; there was no financial discipline, particularly in the management of working capital and there was no effort to build up internal financial strength during good periods[1]. Simha states that many of the difficulties are the result of inexperience, either because the entrepreneur is new or even an experienced entrepreneur has embarked upon a new manufacturing line which is fairly sophisticated and for which much experience may not be available in the country or difficulties may arise because of failure to exercise proper judgement in such basic matters as location of the unit, capacity, process, product-mix, availability of power, water and adequate transport facilities, demand for the product, etc.[2] Even Industrial Reconstruction Corporation of India while restructuring sick units lays utmost emphasis in strengthening

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SOURCES :

1. Report of the Study Team of the State Bank Of India, 1975, p. 16.

2. Simha, S.L.N.,Development Banking in India with special reference to a State Level institution - Karnataka,p.305.

the management set-up in the assisted units; and adequacy of management set-up in such units is periodically reviewed; and where necessary, knowledgeable and experienced persons in respective fields are inducted so as to help guide the affairs of assisted units more effectively.[1]

Deficiencies in management may arise due to :

Poor managerial talent : Successful managers seem to possess certain traits which are termed as supervisory ability, intelligence, initiative, self-assurance, dicisiveness; maturity and achievement motivation in a larger measure than general employed population. Persons with poor managerial talent or those who are unsuccessful are reported to lack proper human relations, are unable to solve problems, are immature, do not delegate authority, are unable to communicate, lack drive and show signs of anxiety. Also managements which are unsuccessful are less resilient, are more demoralised and tend to complain rather than have an introspection about their deficiencies. Worse still is the fact that there is a tendency to take into employment numerous relatives and friends, who by their training and performance are not capable of percorming functions entrusted to them.

Weak organisational set-up : An organisational set-up is intended to carry out the plan of operations of the enterprise to achieve its basic objective of industrial production at a profit.

SOURCE :

1. Industrial Reconstruction Corporation Of India Ltd., Calcutta, Annual Report, 1975-76. p.13.

For this purpose, organisation of an undertaking is generally divided into various function systems: production, industrial engineering, marketing, financial planning, etc. In a small scale industrial unit, because of its limited operations, the entrepreneur himself is the organisation, in whom all these functions are vested; however, with increase in production or due to increaseing complexity of industrial production, the entrepreneur due to lack of skill and experience is unable to take care of functional areas, more particularly, that relate to marketing and finance.

In a large scale unit, where internal organisation does exist, it suffers from inadequate attention, absence of functional demarcation, responsibility and delegation of authority; as a result of this the operations of the enterprise are conducted arbitrarily. The organisational set-up does not generally provide for industrial engineering or staff functions; the former to evolve new products or to suggest changes in the design of existing products to tap emerging demand, the latter to evolve new systems for co-ordination, audit, technical methods, etc. Further the mediocre or weak organisational set-up may be made more ineffective if the same is manned by numerous relatives.

Mismanagements: Management of an enterprise, whether with poor managerial talent or otherwise, may deliberately indulge in mis-managing its affairs; an unscrupulous management may even go to the extent of defrauding the enterprise. This would arise

when the management wants to take advantage of its privileged position to enrich itself. This may take the form of locating the enterprise in a place owned by it or by its friends/relatives and acquiring the same at a price higher than the market price; awarding contract for construction of factory premises of purchase of machinery to concerns in which the promoters are interested; purchase of raw materials or sale of goods again from and to the same concerns to the disadvantage of the industrial enterprise, recruitment of persons known to management for jobs for which they are not qualified. Even if the management is not interested in an associate concern with whom contracts are entered into, the management can work out an arrangement with such parties who will be willing to over-invoice the supplies to the enterprise and/or are willing to purchase the goods at less than fair market price and thereafter to make over the difference to the said management. All such arrangements would drain away not only the profits and equity of the enterprise, but might leave it in a state which may be beyond redemption.

Dissension amongst partners or Directors of a Company :

Normally, management decisions are taken by unanimity or by consensus and members of a partnership concern or directors of the company by and large adhere to such decisions as these are expected to achieve the objective of the firm or company. However, at times, differences arise amongst the partners of a firm or directors of a company either on account of their capital contribution to the enterprise, role played by one to the exclusion of others, unilateral decision by a group of partners or

directors and most important of all dis-similarities in temperament or lack of adjustment. Such dissensions even if simmering initially may come to the surface more often when a concern starts losing money; in this case, one person or group of persons are likely to accuse others for such state of affairs and due to inability and reluctance of the partners to bring more funds into the firm, the safety of which is uncertain, the industrial enterprise which is already faced with difficulties goes aground.

2. PRODUCTION :

Problems relating to production could be improper layout, improper maintenance of plant and machinery leading to frequent breakdowns, obsolescence of machinery, faulty production programme and lack of product diversification.

Improper Layout : Proper plant layout would ensure movement of materials in the easiest possible manner over the shortest possible distance providing a natural sequence of operations. An improper layout is thus the one which is arranged with little regard for economical flow of material. This increases labour cost in handling goods, tie-up of more capital in work-in-process, and makes production control, inspection and quality control more difficult.

Improper maintenance : Maintenance of plant and machinery is essential to keep machinery free from malfunctioning and excessive wear with a view to ensuring smooth production..Inadequate attention to this aspect or absence of proper provision for maintenance costs would lead to breakdown of machinery at frequent

intervals. This would in turn disrupt production and add to labour cost as labour shall be rendered idle. If the machine p plays a predominant role in production process, it would affect the entire production programme adversely. A World Bank team is stated to have reported that majority of Indian textile mills could only be described as 'industrial slums, and that the Indian textile mills in general were very tardy about maintenance programme and that by West European standards of mill house-keeping, the machinery was operated in India in conditions of unimaginable squalor. The report further adds that as against this, quite a few mills up dated their machinery and achieved higher levels of production and efficiency with old models of machines.

Absence of modernisation : With the advancement of science and continued research and development, technologies or processes of manufacture adopted in the past are continually being replaced by new techniques and methods of manufacture. This brings change in the minimum scale of operations which continue to remain economic, change in quality of products and invariably brings down the cost of production. An industrial unit which is unresponsive to such changes finds itself in an uncomfortable position as productivity in the enterprise would below and costs high as compared to those following a newer technology. The reasons for lack of modernisation are many- the most common being unwilling to take risks- the rist of investing additional capital when the prospects of marketing the additional production are uncertain.

Faulty production programme : Production planning ensures supply and movement of materials so that these resources are available at every stage and ensure full utilisation of plant, equipment and labour. In a faulty production programme, productive operations are held up through the non-availability of necessary materials and components when these are needed. This results in rendering plant and labour idle at various stages, while at times accumulating materials at other points. Further, it makes it imperative to resort to overtime to ensure delivery promises.

Low utilisation of plant and equipment : It is the fixed assets and more particularly the plant and equipment which makes industrial production possible. Rendering the plant and equipment either partially or wholly idle would have a direct bearing on the quantum of production and costs. While the fixed costs towards depreciation, obsolescence of machinery and interest on loan for acquisition of assets would continue to be incurred, reduced production would hardly leave any margin to meet these fixed costs. Further, wages would continue to be paid when this plant and equipment is partially utilised thus adding to the costs without any return thereon.

Lack of product diversification : Product diversification is advocated both for growth of an industrial enterprise and to avoid disaster. It is held that all the unsuccessful enterprises lacked product diversification. An enterprise relying on a single product can become a victim to many of the external factors, such as, competition, fall in demand, shortage or rise in prices of raw

materials, change in Government fiscal policy, etc. In India, example of diesel oil engine or kerosene lamp industries are standing examples of failure of units due to lack of product diversification.

3. Materials Management :

Materials management covers purchase of materials of the right quality at the most favourable price to be available at appropriate time. Though over two-thirds of total expenses of an average manufacturing concern are made through purchases, yet the aspects connected with purchases are not given the attention to the extent it is necessary. As a result of this, supplies of materials are irregular or inadequate and are not obtained at the most favourable terms. The aspects which are not properly attended to are:

Determination of purchase requirements : Purchases are made either on the basis of requisitions of materials arising from various departments of an enterprise or on the basis of estimated requirements for achieving a specified target of production. No attention is given to the inventories already available and thus materials are ordered though these are available in stock. Further, there is a tendency to place order for materials for a quantity larger than actually required thus adding to the costs. On the other hand, if the quantity ordered falls short of actual requirements, the cost of obtaining remaining requirement or getting it made to order would be comparatively much higher; further, since

obtaining additional materials shall take time, it may disrupt production also. Again, while indenting requirements, if the specifications of materials are not spelt out precisely, there is every likelyhood of purchasing the goods of a lower quality and paying the price for goods of a better quality. This affects the enterprise both ways.

Locating suppliers and placement of purchase orders : Suppliers of materials and components are numerous and except when these goods are in short supply, it should be possible to obtain supplies of materials and components at most favourable terms. Buying is an art in itself. Managements lose immensely in this field if they are naive. They may not be aware of the precise nature of their requirements, that is, quantity and quality of various materials and components to be ordered, various types of suppliers from whom these goods can be purchased, prices of the materials, delivery schedule, and terms of payment. Inability to collect this relevant information would make it difficult for the purchasing officer to purchase his requirements from a source which would be the most suitable. As a result of this, the unit would lose because either it would pay higher prices, or would accept low quality goods, or delivery schedule would be uncertain or terms of payment unfavourable. An enterprise which is already sick does not have a wide choice, because its ability to negotiate the most favourable terms is restricted as the suppliers would be unwilling to supply goods on credit; they may like to offer favourable terms only on cash basis, which a sick unit may not be able to meet.

Redundant Invertories : All sick units are loaded with inventories, a part of which may be redundant or waste. At times, there would be shortages in inventories when these are compared to stocks shown in stock statements. Further, these inventories would beve been held over for a considerable period without any attention being paid about their disposal or use. Such redundant inventories continue to incur expenditure by way of interest on borrowed funds, occupying costly space and also becoming worthless with the passage of time due to deterioration in quality.

4. Marketing :

Most of the ailments of an enterprise are attributed to its inability to market the goods manufactured by it at remunerative prices. This inability could arise on account of :

Entry of a new manufacturer : A manufacturer who has entered afresh in a market finds it difficult to sell his ware with the emergence of a buyers' market. The wholesalers and retailers who have already developed contacts with their suppliers would shy away a new manufacturer; this also arises as the product of the new manufacturer has yet to establish itself in the market; its name would be unknown and thus the wholesalers/retailers may have to put in extra effort to promote the sale of the said product. The manufacturer can make a dent in this market only by patient efforts and that also if he is willing to offer his product at a lower price and with a longer credit line; may be at times the purchaser would like to keep an option to return unsold goods.

If a manufacturer has brought out a new product, resistance to it by the market and the consumer may be even more. Its acceptance would depend upon the promotional measures taken after proper market research. Usually, it takes quite long to establish the credence of a new product and its utility; and there are cases where a promoter of new product possibly fails to cash on his invention giving way to a more resourceful and dynamic entrepreneur, who exploits the situation to his advantage.

Inadequate margin : Pricing of a product determines the gross margin available to the enterprise to meet its various overhead costs. Though there are various methods of pricing, such as 'full-cost' pricing or 'goint rate' pricing, etc., manufacturers of ailing units would follow the 'going rate' pricing method. In this method the manufacturer follows the pricing of the manufacturers of identical products. While it is understandable that a manufacturer shall not be able to sell his ware at a price higher than the price at which a comparable product is sold, he does not know whether his price would leave him any margin or whether he is is selling at a loss. This is so, as the direct and indirect costs of different enterprises may vary, and therefore break-even point of one manufacturer may be different from that of the other. Further, if a manufacturer offers more favourable terms either to push the sales of his products or to enter closed market, he would be placed at a further disadvantage, unless such favourable terms have been extended for a limited period.

Product mix : Various combinations of same resources can turn out various products, as for example, a unit engaged in manufacture of steel furniture, can make with the help of same equipment and labour such other items as chairs, tables, cots, supboards, almirahs, book racks, safes, etc. His profit would depend upon his product mix, that is, the quantities of various products that can be sold. The enterprise would be doing badly even if its production and sales are increasing if sales of profitable items are falling off and of those products where margin of profit is inadequate are increasing.

5. Finance :

Lack of finance, whether equity or borrowed funds, is more often the effect of an ailment, rather than the cause for it. The causes that lead to depletion of resources or such financial problems of a unit are :

Bad debt losses : Losses arising on account of bad debts of an important customer would shake the entrepreneur as he would not only lose his money but also the customer on whom he had built up his enterprise. Recovery of bad debts is a long and arduous process and if the amount of such bad debts is substantial, it might wipe out a large part of its capital and reserves and the enterprise may find it difficult to bear without impairing its viability; however, a small loss is a normal contingency in the conduct of any business.

Depletion of resources : A concern which continues to incur losses in its operations will find its capital, deposits and reserves eroded. Its current liabilities generally would tend to become higher than its current assets comprising inventories, trade debtors,etc. Its creditors would sense the financial difficulty and would pressurize the entrepreneur to pay back the dues, which the latter might be unable to do. He would also find to his dismay that many of his current assets comprising inventories and trade debtors are not realisable. Under these circumstances, the entrepreneur being hardpressed for funds to pay off the creditors, labour, electricity bills, and purchase of raw materials etc. might also find banks not meeting his credit requirements, as the unit is already in a financially bad shape.

Withdrawal/diversion/siphoning off funds : Many entrepreneurs withdraw/divert funds from the enterprise either for genuine domestic obligations or for investment elsewhere or for other purposes, such as affluent living. The effect of diversion of funds, irrespective of the purpose, would be the same, if the amount diverted is in excess of its net profits (after tax). Normally a part of the profits should be ploughed back into the enterprise in order to enable it to grow and to build reserves to take care of stresses during periods of recession, etc.; if this is done, withdrawal of funds will not affect the smooth working of the unit.

At times, the managements which are not scrupulous may siphon off the funds from the enterprise to serve their own ends. This can be done by making purchases from associate concerns at prices

higher than the prevailing ones, selling goods at lower prices; entering into contract for sole selling agencies and allowing handsome commission or discount on such sales, etc. Even if an entrepeneur does not have an associate concerns, he can do the same by dubious means.

Lack of financial planning/control : Financial planning/ control that brings to the notice of the entrepreneur the financial deficiencies of the enterprise is absent in a unit, where adequate attention is not paid to control cash inflow and outflow.

6. Personne Management :

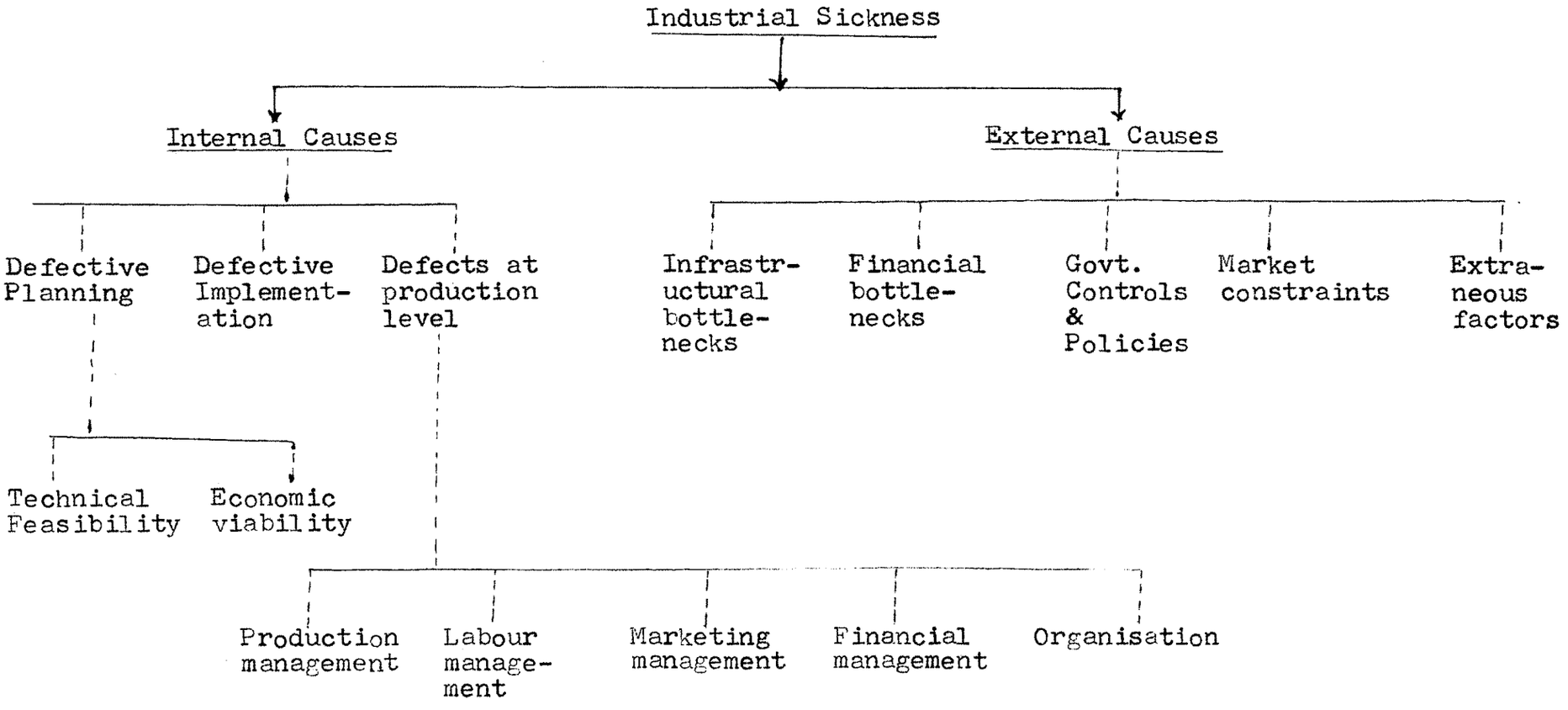
Entire production process is performed by workers engaged in an enterprise. Wages paid to labour and salaries to other staff, therefore, contribute quite a lot to the total cost of the product. If the management does not get the best from its labour, it may be heading for trouble.

Industrial relations : For best productive efforts, harmonious relations between the labour and management is very necessary. Harmonious relations do often get disturbed as the management do not always acced to requests for increase in wages or other benefits. Some times indiscipline or precipitate action may also create distate between the management and the labour. If these issues or disputes are not settled amicably, these develop into confrontation leading to demonstration, strike, lay off, etc.

Absenteeism/labour turnover : Absenteeism and labour turnover is a common feature. In many industrial centres, labour hails from far off places and on religious and festive occasions go back to their home towns. Absenteeism would render the machines idle. In those industries, where absenteeism and labour turnover is very high, it would be difficult to ensure uniterrupted working of the unit; labour turnover may itself be the cause of sickness of the unit.

Overstaffing : Many a time in sick enterprises, it would be observed that there are more men than the jobs available for them. This could happed because right persons with appropriate skill and training had not been recruited; this deficiency is ought to be made up by recruitment of more persons similarly ill-equipped. Further, workmen and supervisors, have to be employed for operating various machines installed in the unit even though these machines are not fully utilised. Overstaffing does not only lead to wastage in wages paid to such excess staff but also impedes work of others hereby lowering the production.

We can have the bird's eye view for the folliwng chart.



Source : COMMERCE Weekly, April 28, 1988.

4.7 ANALYSIS OF INDUSTRIAL SICKNESS WITH REFERENCE TO BARSHI TEXTILE MILLS.

In case of Barshi Textile Mill we get the following major signals of sickness. Our analysis refers to five financial years i.e. from 1964-65 to 1968-69 which is a very crucial period in the pre-nationalisation life of this textile mill.

(a) Heavy dependence on external funds :

One of the major signals of sickness is heavy dependence of of an industrial unit on the borrowed funds without any internal generation of funds. This can be seen from the debt-equity ratios. The reasonable debt-equity ratio on the basis of IDBI guidelines comes to 3:1 i,e. with one rupee equity capital one can have borrowed funds to the extent of Rs. three.

Barshi Textile unit had exceeded this norm which can be clearly seen from the following table.

Table No. 6 DEBT-EQUITY RATIO

Financial Year	Owned capital (a)	Borrowed capital (b)	Debt-Equity Ratio (c) $c=\frac{b}{a}$
1964-65	10,10,088	50,89,149	5.03:1
1965-66	10,37,583	53,01,295	5.10:1
1966-67	12,46,818	53,48,652	4.28:1
1967-68	12,57,506	49,93,089	3.98:1
1968-69	12,53,506	58,38,413	4.65:1

SOURCE : Company Balance Sheet.

In the two consecutive years i.e. 1964-65 and 1965-66 debt-equity ratio had been alarmingly high i.e. more than 5:1. This debt-equity ratio hadcreated structural imbalance in the capital structure which is the root cause of sickness.

(b) Secondly this mill has been incurring continuous losses as mentioned in the annual report for the financial year 1965-66. The working of the company during the year under report had resulted in a loss of Rs. 6,12,052. In the analysis of the balance-sheet for the period of 1964-65 to 1968-69, the year 1966-67 had been an exception since the company earned the gross profit of Rs. 5,41,000.00.

The gross profit ratio is quite sufficient and reasonable indicator in this regard. The following table clearly shows that this ratio had been negative for the financial years 1964-65, 1965-66 and 1968-69.

Table No. 7 GROSS PROFIT RATIO

Year	Sales	Raw materials & overhead cost	Gross profit	Gross profit ratio
1964-65	71,77,228	76,13,700	-4,36,472	-6.08
1965-66	74,85,256	77,91,926	-3,06,670	-4.09
1966-67	81,75,030	73,60,275	8,14,755	9.96
1967-68	93,10,500	84,87,564	8,22,936	8.83
1968-69	89,05,881	91,64,709	-2,58,828	-2.09

SOURCE : Balance Sheet of company.

Even after 1968-69 the mill had been incurring losses till its take-over by National Textile Corporation (NTC) in the year 1972, Table No. 1 (Chapter III) shows the financial position of Barshi Textile Mill before its take-over. It throws light on the abnormal situation developed by the unit. The accumulated losses had been mounting up which exceeded the total amount of paid up share capital. plus reserves and surplus.

The main cause for this has been mentioned in the annual report for the financial year 1968-69. The rise in the rate of cotton which constitutes major item of raw material increased the production cost enormously. In spite of efforts on the part of management in acquiring stocks of cotton directly from the markets, it registered an average rise of 33.66% as compared with the earlier year. As the cotton cost in spinning mills constitutes about 65% of the total manufacturing cost, the impact in terms of escalation of the production cost had been significant. The second important factor affecting the cost of production had been arise in the dearness allowance. The average dearness allowance during 1968-69 was Rs. 3-97½ per day against Rs. 3-87 in 1967-68 and Rs.3-63 in 1966-67. There had been an increasing pressure to have upward revision of wage rates as the result of the recommendations of Second Wage Board for Textile Industry.

Against the background of increasing production costs, the yarn-rates on the other hand had shown an increase only to the extent of 5.78%.

It is clearly discernible from table No. 7 that raw material and overhead costs had been rising during the entire period of our analysis i.e. 1964-65 to 1968-69, with the only exception of 1966-67. During this period management could effectively control the expenses - especially electricity expenses since electricity was made available at cheap rate from Koyana Project.

(c) Thirdly, there has been a decline in sales during three consecutive years i.e. 1969-70, 1970-71 and 1971-72, a period before nationalisation. This is mainly due to market conditions which were not favourable for spinning mills. There was a stiff competition from man-made fibre and cotton yarn could not withstand that competition. The decline in sales and increasing production costs mainly resulted into losses.

The policy regarding man-made fibre might be one of the causal factors for the sickness. This extraneous factor was beyond the control of management.

(d) Death of a key person in the life of a firm is also cited as one of the reasons of sickness. This is exactly so in case of Barshi Textile Mill after the sad demise of Shri Kakasahab Zadbuke. He had very unique style of management which could control the manufacturing expenses to a greater extent.

(e) The current ratio i.e. the ratio of current assets to current liabilities has also been a sensitive. symptom of incoming industrial sickness. Generally the current ratio of 1:1 has been regarded as the indicator of sound financial health of an industrial unit. It means that the current assets are quite sufficient

to meet current liabilities. During the period of our analysis i.e. from 1964-65 to 1968-69, this ratio has been less than one except for the first year of analysis i.e. 1964-65. During this period the ratio had been 1.87 indicating the sound financial position of the unit. Since then, current liabilities had been increasing which clearly shows that financial position of the firm had been deteriorating. The folliwng table speaks for itself.

Table No. 8 CURRENT RATIO

Financial year	Current Assets (A)	Current Liabilities (B)	Current ratio (C) $C=\frac{A}{B}$
1964-65	13,80,269	7,36,592	1.87
1965-66	12,13,254	36,29,118	0.33
1966-67	16,75,325	35,51,998	0.47
1967-68	17,52,299	35,18,106	0.49
1968-69	19,57,642	32,67,803	0.60

SOURCE : Company Balance Sheet.

In our analysis of industrial sickness of Barshi Textile Mill it becomes vividly clear that the management received adequate signals of incipient sickness from its financial reports. In fact the annual report for 1968-69 had hinted at this. The company approached the State Govt. during this financial year requesting its help under one of the vanous schemes chalked out for avoiding closure of this textile mill.