CHAPTER-III

ANALYSIS AND INTERPRETATION

The present chapter aims at studying the anatomy of sick units and, therefore, sick units have been included in the sample survey. The study has been made comparative in the sense that both the sick and healthy units are included in the study from amongst the units located at M.I.D.C., Kudal. In all twenty units have been covered - 10 each from the categories of sick units and functioning units. The data colleced from twenty sample units have been tabulated and analysed.

Table 3.1

Year of Establishment of Sick and Functioning Units

Year of Establishment	Sick Units	Functioning Units
1976 to 1978	2	1
1979 to 1981	1	1
1982 to 1984	5	4
1985 to 1987	2	3
1988 to 1990	-	1
Total Units	10	10

Source: Sample Survey

Table 3.1 shows the years of establishment of small units in M.I.D.C., Industrial Estate Kudal. The year of establishment has

not been a crucial point affecting industrial sickness as observed in the present study. Most of the units have been established during the period of 1982 to 1984. With the bifurcation of Ratnagiri District into Ratnagiri and Sindhudurg in the year 1981, the process of industrialization must have been speeded up during this period.

Table 3.2

Data Pertaining to Sick & Functioning Units

Unit	Sick Units	Functioning Units
Engineering	3	2
Chemical	1	3
Metal	1	1
Plastic	2	3
Paper	1	1
Electrical	1	-
Fruit Processing	1	-
Total:	10	10

Source: Sample Survey

Table 3.2 provides the classification of units into sick and functioning units. In all 20 units have been surveyed and 50 per cent of them are reported to be sick. They have been declared sick units by the District Industries Centre, Kudal and financial institutions, which are responsible for the financing of these units. The remaining 50 per cent are functioning units. In terms of coverage 50 per cent weightage has been given to the sick units. Among

the sick units it has been found that incidence of sickness is high in the case of Engineering units followed by plastic units.

An equal number from both the categories, i.e., functioning and sick units could not be maintained because the number of sick units has to be accepted as it is. This number cannot be manipulated and hence the number of selected units from both the categories is not the same. The proportion of sick units is high compared to the functioning units.

Table 3.3

Investment of Units in Plant & Machinery

Investment (in lakhs)	Sick Units	Functioning Units
1 to 5 lakhs	7	5
6 to 10 lakhs	1	3
11 to 15 lakhs	2	1
16 to 20 lakhs	-	1
Total	10	10

Source: Sample Survey

Table 3.3 shows the investment of sick and functioning units in plant and machinery. The investment of most of the sick units is found to be between 1 to 5 lakhs in plant and machinery; only 3 sick units have invested above 5 lakhs in plant and machinery. It is observed that 70 per cent of the sick units have invested between 1 and 5 lakhs in plant and machinery.

Out of the functioning units 5 units invested in the range of 1 to 5 lakhs in plant and machinery and 5 units invested above 5 lakhs. Here 50 per cent of the functioning units' investment is below 5 lakhs and 50 per cent units' investment is above 5 lakhs, as per the observation of the above mentioned table.

Table 3.4: Age Distribution of Entrepreneurs

Age in Years	Sick Units	Functioning Units
31 to 35	4	2
36 to 40	3	4
41 to 45	2	2
45 to 50	-	2
51 and above	1	1
Total:	10	10

Source: Sample Survey

Table 3.4 shows the age distribution of the entrepreneurs. It has been observed that 40 per cent of the entrepreneurs of sick units are in the age group of 31 to 35 years. These entrepreneurs had commenced their business when they were in the age group of 24 to 26 years. Their failure in the business could be attributed to the factor of immaturity. On the contrary, the age-profile of extrepreneurs of the functioning units is in the age group of 36 to 40 years, which could be consisered as the matured phase of their life. It can be fairly inferred that these entrepreneurs being matured in their business decisions and actions, have been successful. There is a fair reason to believe that these entrepreneurs must have shown rational attitude towards managing their business. Rationality

is certainly an important factor in entrepreneurial decision-making.

Table 3.5

Educational Background of Entrepreneurs

	Qualification	Sick Units	Functioning Units
1	Upto Graduation	5	7
2	Post-graduation	1	-
3	Technically qualified	3	3
4	Technically qualified with experience	3	3
	Total:	13	13

Source: Sample Survey

Table 3.5 shows the educational background of entrepreneurs. There is not much difference in the educational background of entrepreneurs of sick and functioning units. The educational background is an important point, but in the present survey the ratio of educational qualification is almost equal at every sick and functioning unit. Considering the level of education, there is a majority of entrepreneurs who are qualified upto graduation. Though in the field of industry technically qualified persons should take more interest, here it is observed that only 30 per cent of such entrepreneurs have started industries of which sick units and functioning units are almost equal in number. In small-scale units, the role of entrepreneurs is of various types. He is the technical, administrative and financial head of the unit. He has to look after all these departments personally. Technically qualified as well as experienced entrepreneurs are able

to handle all these operations efficiently. But in the present study the percentage of such persons is only 30. Moreover, the technical qualification and experience does not emerge as the significant factor in the successful running of the enterprise since their distribution is almost equal in both the categories.

Table 3.6

Utilized Capacity of Plant
(Average of last three years)

Utilization of Capacity	Sick Units	Functioning Units
Upto 20 per cent	2	-
20 to 40 per cent	3	-
40 to 60 per cent	4	5
60 to 80 per cent	1	3
80 to 100 per cent	-	2
Total:	10	10

Source: Sample Survey

Table 3.6 shows the utilized capacity of plant of sick as well as functioning units (average of last three years). Capacity utilization is one of the important measures of industrial sickness. Ninety per cent of functioning uinits utilized above 40 per cent capacity of their plant and 50 per cent units utilized above 60 per cent of their capacity. The ratio of capacity utilization of the units is higher than sick units, 90 per cent of sick units utilized their capacity below 60 per cent and 50 per cent of the sick units utilized below 40 per cent of the capacity of their plant.

So, the maximum number of sick units face the problem of capacity under-utilization of their plant. The under-utilization of capacity leads to incipient sickness, which if not corrected at the appropriate time, may result into the closure of the concerned unit. Hence it could be treated as the warning signal for sickness.

Table 3.7

Sales Turnover of Sick Units Surveyed
(Figures in lakhs)

Sales Turnover	Year I	Year II	Year III
Upto 1.5 lakhs	3	2	2
1.5 to 3 lakhs	2	1	2
3 to 4.5 lakhs	1	2	2
4.5 to 6 lakhs	1	2	1
6 to 7.5 lakhs	1	-	-
7.5 to 9 lakhs	1	-	1
9 to 10.5 lakhs	1	2	1
10.5 to 12 lakhs	-	1	1
Total:	10	10	10

Source: Sample survey

Table 3.7 shows the turnover of sick units for the last three years. Considering the first year sales turnover of 50 per cent, sick unit is below 3 lakhs and the remaining 50 per cent sick units, sales turnover ranges from 3 to 12 lakhs.

In the second year percentage of the units has been lowered so far as the Rs. 1 to 3 lakhs turnover if concerned. Only 30 per cent sick units' turnover is between one to three lakhs and 70 per cent sick units' sales turnover is between Rs. 3 and 12 lakhs.

In the third year 40 per cent sick units' sales turnover remains from Rs. 1 to 3 lakhs and 60 per cent sick units make turnover of above Rs. 3 lakhs upto 12 lakhs. Considering average sales turnover of the last three years 40 per cent sick units are in the lower range of sales turnover, i.e., Rs. 1 to 3 lakhs.

Table 3.8

Sales Turnover of Units Surveyed
(Functioning)

Sales Turnover	I Year	II Year	III Year
Upto 1.5 lakhs	2	2	2
1.5 to 3 lakhs	1	1	1
3 to 4.5 lakhs	-	-	-
4.5 to 6 lakhs	-	-	-
6 to 7.5 lakhs	-	-	-
7.5 to 9 lakhs	3	2	1
9 to 10.5 lakhs	1	2	1
10.5 to 12 lakhs	3	3	5
Total:	10	10	10

Source: Sample Survey

Table 3.8 shows the sales turnover of functioning units for the last three years. The sales turnover of 70 per cent of the functioning units is above 7.5 lakhs and the remaining 30 per cent sick units' sale turnover is far below, i.e., Rs. 1 to 3 lakhs. The same picture of the turnover has been found during the last three years except in the third year, where it has been found that there is increase in the 50 per cent functioning units' sales turnover

which is the highest one, i.e., above Rs. 10.5 lakhs.

While comparing the sales turnover of sick units to that of functioning units, it is observed that a large number of sick units have been found in the lower range of sales turnover and on the contrary a large number of functioning units are found making higher sales turnover.

Table 3.9

Motivations of the Entrepreneurs for Starting the Unit

Particulars	Sick Units	Functioning Units
1) Previous experience in the line	7	10
2) Was trading & thought of manufacturing	1	3
3) Availability of concessions	6	-
4) Availability of subsidies	2	-
5) Native place is near	8	10
6) Other:		
a) Non-availability of such unit	6	8
b) Availability of raw material	3	2
c) Availability of infrastructure	10	10
d) Availability of labour	5	7
e) Parent unit is near	2	-
Total	50	50

Source: Sample Survey

Table 3.9 throws light on the motivations of the entrepreneurs for starting the unit. It is observed that 85 per cent of the entrepreneurs started their units with previous experience in the line. There has been very interesting finding in our survey that 60 per cent of the entrepreneurs whose units fall sick afterwards had started the units mainly for getting the concessions which are applicable for backwrd area development. They wanted to avail themselves of the subsidies made available under the State Government scheme.

Almost all entrepreneurs started their units in this estate as their native place is near Kudal. While observing the other factors that prompted them to start their units in this estate, non-availability of such a unit in the vicinity and availability of infrastructure are major factors.

It is observed that the units which depend on the parent units, fell sick as the parent unit ceased its functioning. It has been found that there is not a single functioning unit dependent on the parent unit.

Comparatively it can be stated that the major motivating factors are:

1) Previous experience in the line
2) Nearness of native place
3) Non-availability of such units in the area
4) Availability of infrastructure.

Table 3.10

Raising of Entrepreneurs' Funds

Fund	Sick Units	Functioning Units
1) Past Saving	9	9
2) Borrowing from friends & relatives	8	9
3) Sale of assets	1	-
4) Share Capital	Nil	1

Source: Sample Survey

Table 3.10 shows the ways in which the funds are raised in both the categories, i.e., sick units and functioning units. Almost equal number of units fall in the category of 'Past Savings'. The borrowing from friends and relatives is also the common mode of raising finances. Of course, any particular mode of raising finances does not appear to have found any association with sickness except the mode of sale of assets. In the case of one sick unit it was found that it sold its assets for raising funds for working capital. It clearly shows acute resource crush in the case of the concerned small unit. The sale of assets can be treated as the warning signal of sickness.

Table 3.11

Institutional Long-term Finance for Small-scale Units in the Sample Survey

Institution	Sick Units	Functioning Units
Commercial Banks	7	7
State Finance Corporation	-	4
Both	6	4

Source: Sample Survey

Table 3.11 shows the long-term finance made available to small-scale units by various institutions, i.e., State Finance Corporation and commercial banks. The institutional finance has been made available in both the cases, i.e., sick units and functioning units. It becomes very difficult to attribute the cause of sickness to the availability or non-availability of institutional finance.

Table 3.12

Market for Production

Area	Sick Units	Functioning Units
District	4	8
State	8	6
Other State	4	3

Source: Sample Survey

Table 3.12 shows the market for production of industrial units located in M.I.D.C. Kudal. In the case of sick units, it has been observed that 50 per cent of the units are dependent on the availability of market in the state. But they do not have adequate market within the district. On the contrary, in the case of functioning units, almost 50 per cent of the units cater to the District market. The easy access to the market, i.e., proximity to the market might have enabled them to overcome the problem of transportation which is a common problem in the case of small-scale units in the backward districts.

Table 3.13

Declaration of Sick Units by Various Agencies

Considering Agency	Units
Bank ...	8
State Finance Corporation	2

Source: Sample Survey

Table 3.13 shows the number of sick units declared 'sick' by various financial institutions. The prominent amongst them as emerged in the present survey are the State Bank of India and Maharashtra State Finance Corporation. It has been found that M.S.F.C. is strictly following the norm of Reserve Bank of India which classifies a unit as 'sick' if there are cash losses for three consecutive years; while the State Bank of India is following the norm of Debt-Equity ratio. The bank Managers have opined that they consider

the norm of 8:1 in the case of debt equity for the small-scale industries sector. The Bank has adopted the practical approach in this behalf. In fact, there could be common norm to be adopted by various agencies in the case of SSI sector in order to have uniformity in the identification procedure. This will also bring in more reliability in the statistics of sickness with reference to SSI Sector.

Table 3.14

Ratio of Working Capital to Fixed Capital Invested

Ratio of Working Capital to Fixed	Sick Units	Functioning Units
1:1	1	4
1:2	1	3
1:3	3	2
1:4	2	1
1:5	2	-
1:6	1	-

Source: Sample Survey

Table 3.14 shows the ratio of working capital to fixed capital invested in the units of sample survey. The rate of working capital to fixed capital becomes important from the point of view of liquidity. If satisfactory ratio is maintained, sickness can be arrested at least initially. In the case of sick units, out of 10 units covered in the sample, five units have unfavourable ratio. The ratio is as high as 1:6. It means when fixed capital is of Rupee six., only one rupee is available practically for circulation.

In the absence of circulating capital, the entire functioning of the unit gets affected which leads to sickness. The worsening working capital to fixed capital ratio can be taken as a sign of incipient sickness. There is a possibility that the financial institutions or even the bodies like DIC (District Industries Centre) may give warning signals to such units so that they get breathing time to improve upon their liquidity position.