CHAPTER - II

SANCTIONING OF LOANS AND NURSING OF SICK UNITS BY NSIC

2.1 Introduction of Schemes to build up an industry in general.

2.2 Regionwise Classification of Loan Applications

2.3 Districtwise Classification of Loan Applications.

2.4 Nursing of Sick Units by NSIC

CHAPTER II

2.1 INTRODUCTION OF SCHEMES TO BUILD UP AN INDUSTRY IN GENERAL :

(i) "Few problems are more fascinating, more important, or more neglected than the rates at which development proceeds in successive generations in different countries." *5

(ii) "Most observers of the problems agree that a major requirement for development is the accumulation of real capital. This involves three interdependent activities :

1. an increase in the volume of real savings, so that resources that would have been used for consumption purposes can be released for other purposes;
2. a finance and credit mechanism, so that the resources may be claimed by investors; and
3. the act of investment itself, so that resources are used for the production of capital goods." *6

The MSFC is aware of the need of the small entrepreneurs and with a view to give encouragement to the entrepreneurs, the Corporation has designed innovative schemes from time to time. During the period from 1978-79 to 1982-83 the following schemes were in operation and financial

---

*5 W.C. Mitchell, Business Cycles, National Bureau of Economic Research, New York, 1927 PP 416.

*6 Gerald M. Meier and Robert E. Baldwin, Economic Development Theory, History, Policy, Asia Publishing House, Bombay PP 335.

assistance were also granted to help the entrepreneurs, small and medium industrialists.

1. Normal Loan Scheme :

MSFC gives loans on a margin of 25% for small scale industries & on 40% margin for medium scale industries.

2. Soft Loan Scheme :

In the 13 backward districts of Maharashtra, viz. Raigad Ratnagiri, Dhule, Jalgaon, Aurangabad, Osmanabad, Beed, Nanded, Parbhani, Buldhana, Yevatmal, Chandrapur and Bhandara, MSFC gives loans at concessional rates of interest.

3. Central Subsidy :

In the 3 districts of Maharashtra, viz. Ratnagiri, Aurangabad and Chandrapur and in Goa, Daman and Diu, MSFC disburses Central Subsidy of 15% of the capital investment subject to maximum of Rs. 15.00 lakhs, pending disbursement of Central subsidy.MSFC, also gives short term loans against Central subsidy which are interest free for first 6 months in respect of small scale industries.

4. (WBL) World Bank Loan Scheme :

Under the World Bank loan of $ 40 M IDBI (Industrial Development Bank of India) refinance loan granted by

MSFC in foreign exchange for import of plant and machinery. The rate of interest ranges from 13.50% to depending upon the location and size of the unit and availability of refinance from I.D.B.I. Usual conditions of the loan apply to World Bank Loan Scheme.

5. (TAS) Technicians Assistance Scheme :

MSFC encourages technician entrepreneurs to set up industries and grants loans on liberal terms to qualified experienced technicians under Technicians Assistance Scheme (TAS). The technician should be either a degree/diploma holder with minimum three years' experience or if he is not so qualified, he should be at least educated and should have minimum 5 years' experience, in the proposed line of manufacture. The maximum limit of assistance is fixed at Rs. 5.00 lakhs and the margin stipulated is about 15%. In deserving cases Corporation may consider Seed Capital Assistance to bridge the gap in the promoter's contribution. In any case the applicant will be required to bring minimum 7½% of the cost of the project from his own resources.

6. (YTAS) Young Technicians Assistance Scheme :

MSFC grants assistance to those young technicians below 35 years of age, like drillers, fitters, welders, turners, carpenters etc., who have at least 3 years' practical experience but no academic qualification. The scheme

also applies to degree and diploma holders with no experience and to persons who have successfully undergone apprenticeship training or ITI courses. Normally, the minimum margin stipulated is 15% and in case of Seed Capital Assistance margin or promoter's contribution can be reduced to 7½% of the cost of the project. The maximum assistance available under this scheme is Rs. 2 lakhs.

7. (EVS) Scheme for Assistance to Educated Unemployed Persons :

MSFC gives Loan upto Rs.50,000/- to educated unemployed persons i.e. those who have passed 10th std./S.S.C. or equivalent examination or I.T.I. trained, on lower margin ranging from 5% to 10% in order to encourage them to start self employment ventures. Upper age limit for eligibility is 45 years.

8. Schemes for financing Transport Operators :

MSFC advances loans for purchase of brand new trucks, taxies and autorickshaw under its transport loan scheme. Loans for trucks and taxies are usually sanctioned on 25% to 30% margin while the margin for autorickshaw ranges from 5% to 10%. In case of National permit holders the margin stipulated is 15% .

9. Development Finance Scheme :

Loans upto Rs.2/- lakh at usual rate of interest are given for development of prototype/processes.

10. (SCA) Seed Capital Scheme :

Seed Capital Assistance is given to proprietory and partnership concerns at the rate of 1% to bridge the gap in equity required to be brought in by the promoters. In the case of limited companies assistance is given with an obligation to declare 6% dividend. Maximum assistance that can be given is Rs.2/- lakhs or 20% of the project cost. The repayment period and moratorium are liberal.

11. Scheme For Modernisation :

Assisted small scale units in various industries which are in existance at least for 5 years are given assistance under this scheme at usual rate of interest.

12. Composite Loan Scheme :

Loans to artisans, craftsman and others are given for amounts from Rs.2,000/- to Rs.25,000/- on 5% margin in backward districts and 10% elsewhere provided that units are located at taluka places with a population of less than 50000 at the rate of interest at 6%. Under the scheme, M.S.F.C. grants term loan for

purchase of equipments and also working capital assistance to articians and craftsman for settin up village and cottage industries based on locally available resources in places with population less than 50,000.

13. Scheme for Ex-servicemen :

M.S.F.C. gives loan upto Rs. 3.00 lakhs on 15% margin to the retired army personnel for starting any small-scale industry which is eligible for financial assistance under SFCS Act. The maximum age limit is 45 years, which can be relaxed upto 50 years in deserving cases.

14. Scheme for Scheduled Caste/Scheduled Tribe Entrepreneurs :

The Scheme provides financial assistance for purchase of only plant and machinery to the entrepreneurs who belong to the Scheduled Caste/Scheduled Tribe as declared by Government of India. He should, preferably be SSC or diplema holder or having minimum two years' practical experience in any industrial unit. The entrepreneur should be preferably within the age group of 18-35 years. The maximum loan of Rs.1-00 lakh on 5 to 10% margin can be considered at usual rate of interest.

15. Scheme for Assistance to Medical Practitioners :

The Scheme provides financial assistance to individual doctor or medical practitioners, with a basic qualification of M.B.B.S./Radiologist having minimum 3 years' experience in the relevant field for purchase of X-ray equipment, on 15% margin to the maximum of Rs. 2 lakhs. The age limit prescribed is 25 to 40 years. The usual rates of interest will be applicable for this loan also.

16. Scheme for Financing Hotels:

M.S.F.C. advances loans to hotels, providing both lodging and boarding facilities, for encouraging tourism. Financial assistance for hotels is available for acquisition of fixed assets like land, hotel building, purchase of air conditioning and electrical equipments used in the hotel and furniture and fixtures. The margin stipulated is about 40% to 50% of the value of assets accepted in security.

17. Scheme for Mechanisation of Small Fishing boats :

M.S.F.C. advances loans to traditional fishermen for mechanisation of their small boats for acquiring marine engines of One or Two cylinders. Maximum assistance available is limited to Rs.50,000/-on margin of 10%.

18. Scheme for Assistance towards Acquisition of Generating Sets :

M.S.F.C. grants financial assistance for acquisition of

generating sets to enable the industrial units to meet the power shortage due to restrictions imposed on the use of electrical power. Maximum assistance of Rs. 5 lakhs is considered on 25% margin to SSI Units all over the State of Maharashtra. The medium scale units located in Bombay, Pune, Thane will be granted loan on 35% margin.

19. Development Finance Scheme :

This scheme is introduced with a view to render financial assistance the entrepreneurs for development of pretetypes or new processes by the proposed or a existing units. The maximum assistance upto Rs.50000/- is considered for proposed units and also to the existing units where development work is yet to be carried out. In case of existing units where development work is already carried out, the ceiling of assistance is fixed at Rs. 1.00 lakh.

Rate of Interest :

For Loans upto Rs. 50,000/-

All loans upto Rs.50,000/- are considered at a lower rate of interest of 6% including loans for Auto-rickshaw.

2.2 REGIONWISE CLASSIFICATION OF LOAN APPLICATIONS :

The M.S.F.C. came into existence with the main objectives to meet the term loan requirements of the Small-scale & Medium Scale industries for acquisition of Fixed Assets like Land, Buildings, Plant & Machinery and Equipments.

M.S.F.C. has the other objectives for which it is aiming at to take more and more efforts to initiate rapid development of backward regions. India is a vast country where around 78% of the population lives in remote rural area where even the facilities of basic necessities of life like education, medical services, public health and means of communication are not well developed. On account of much higher rate of growth of population which stands at around 2.44% per annum while at the same time stagnancy of national income, has ladd to the very low level of per capita real income. The main problem is not only that the real per Capita income in India is not only very low but also has not increased sifnificantly and there are signs which indicate that the real per capita income of the rural masses shows tendency towards decrease. As a result mass poverty, wide spread unemployment especially amongst educated youths leading to tremendous wastage of manpower cannot be tolerated over a long period of time.

Indian economy is characterised by reasonal imbalances, even in Maharashtra State except for Bombay-Poona Region

and Nasik Road Belt, rest of the regions may be described as Backward Regions. M.S.F.C. feels pride of taking initiative in Industrial Development in Backward Areas with the help of a large no. of schemes. It aims at the promotion and development of Dynamic Entrepreneurship to establish resource based industries in Small-scale section firmly so as to generate its spread effects within the region. It is in this contest that the regional distribution of the Financial Assistance provided by the M.S.F.C. can throw the light on the efforts made by the M.S.F.C. to promote Backward Areas in the state. For this purpose the M.S.F.C. treats 13 districts of Maharashtra which cover all the 5 districts of Maharashtra, i.e. Aurangabad, Beed, Nanded, Parbhani and Osmanabad, 4 districts of Vidarbha i.e. Yeotmal, Buldhana, Chandrapur and Bhandara, 4 districts of Western Maharashtra, i.e. Dhule, Jalgaon, Ratnagiri and Raigad. Entire Union Territory of Goa, Daman and Diu is also declared as Backward and hence the Industrial Units located in these areas get concessional rate of interest subject to availability of Refinance.

The table No. 4.1 shows Regionwise Break down of the Loan Applications Sanctioned and amounts disbursed for the years 1978-79 to 1983-83. When we take this table into consideration we observe that around 2/5th of the total sanctions and disbursements go for first two regions,

i.e. Bombay and Thane Regions (including Konkan, Daman and Diu which are backward areas) may be treated as an allotment to the Developed Region. Poona and Nagpur Regions claim around 10% each. Thus, together cover cover broadly 1/5th of the total sanctions and Disbursements. Aurangabad Region Treated wholely as a Backward Region along with Goa Region which is also a backward Region claim around 10% each of the total sanctions and Disbursements. It is interesting to note the Regions of Nasik and Kolhapur claim around 7% of the total sanctions and disbursements while Amaravati which started functioning from the year 1982-83 claimed for 3% of the total sanctions and 5% of total disbursements for that year.

As we are interested in the activities of M.S.F.C. in Kolhapur Region, this region may be studied in details. The no. of units for which financial assistance sanctioned and disbursed indicate continuous increase from 234 in 1978-79 to 391 in 1982-83 indicating an increase of 67% over five years, reflecting around 13% rate of growth p.a.

Taking into consideration the amounts sanctioned for the industrial units in Kolhapur Region shows more or less increasing trend from Rs. 2.16 crores in the year 1978-79 to Rs. 4.26 crores in the year 1981-82. However, it is decreased to Rs. 4.01 crores in the year 1982-83. On the whole it may be concluded that it reflected around 86% increase during the period indicating 11% rate of growth p.a.

From the point of view of achievement of the aims and objectives of MSFC actual amount disbursed may be considered as more real indicator than the amount sanctioned for the region. The actual amount disbursed also indicates continuously rising trend except for the year 1981-82. When it remained stable at earlier level. The total amount disbursed increased from Rs. 1.46 crores in the year 1978-79 to Rs. 2.77 crores in the end of 1982-83, indicating around 90% increase over the base year showing 18% rate of growth per annum over the period of 5 years of our study.

Taking into consideration the Location, the availability of resources both material resources & human resources, environment for rapid development and entrepreneurship, nature and habits of the local population & leadership provided by the region in various economic walks of life. It may be suggested that MSFC should at least double its financial assistance to the Kolhapur Region. So as to bring up this region in respect of allotment of financial assistance at the same level as Aurangabad and Nagpur and Pune.

Taking into consideration the availability of resources and infrastructure on one hand and the requirements of the economy on the other it may be suggested that MSFC should at least sanction double the amount which it is sanctioning and disbursing at present which will help not only to increase standard of living of the masses in the district but also help the MSFC in accomplishment of its objectives.

TABLE NO. 2.1 (A)

REGIONWISE CLASSIFICATION OF LOAN APPLICATIONS SANCTIONED AND AMOUNT DISBURSED

(Administrative Regions)

(Amounts in crores of Rs.)

Sr. No.	Region.	1978-79					1979-80				
		Sanctions			Amt.Disbursed		Sanctions			Amt.Disbursed	
		No.	Amt.	%.	D.	%	No.	Amt.	%	D.	%.
1.	Bombay-Konkan	253	7.48	22.64	5.08	24.30	315	7.31	19.70	5.25	22.19
2.	Thane, Daman & Diu	197	6.96	21.26	5.01	23.95	201	7.59	20.45	4.60	20.29
3.	Nashik	118	2.18	6.66	1.16	5.55	160	2.80	7.54	1.50	6.34
4.	Pune	180	4.00	12.22	2.20	10.53	205	4.20	11.32	2.18	9.22
5.	Kolhapur	234	2.16	6.60	1.46	6.98	306	2.89	7.79	2.06	8.79
6.	Nagpur	321	3.31	10.11	1.95	9.33	379	3.31	8.92	2.37	10.01
7.	Amravati	-	-	-	-	-	-	-	-	-	-
8.	Aurangabad	301	3.18	9.71	1.92	9.18	272	4.42	11.91	2.45	10.36
9.	Goa	142	3.47	10.60	2.13	10.18	142	4.59	12.57	3.03	12.80

TABLE No. 2.1 (B)

Sr. No.	Region	1980-81					1981-82				
		Sanctions			Disbursed		Sanctions			Disbursed	
		No.	Amt.	%	D	%	No.	Amt.	%	D	%
1.	Bombay-Konkan	296	9.53	22.91	7.27	24.10	171	5.06	11.99	5.99	19.44
2.	Thane, Daman & Diu	248	7.07	17.00	5.84	28.96	204	10.68	25.30	6.56	21.28
3.	Nashik	127	2.78	6.68	1.46	4.85	199	3.27	7.75	2.08	6.75
4.	Pune	265	4.50	10.82	3.26	10.88	216	3.42	8.10	2.63	8.5
5.	Kolhapur	330	2.75	6.62	2.50	8.28	351	4.26	10.09	2.50	
6.	Nagpur	437	6.06	14.57	3.64	12.07	489	8.70	20.61	4.76	
7.	Amravati	-	-	-	-	-	-	-	-	-	
8.	Aurangabad	259	3.82	9.18	2.41	7.99	199	4.09	9.69	3.15	
9.	Goa	195	5.08	12.22	3.76	12.47	286	2.73	6.47	3.15	
	Total..	2157	41.59	100.00	30.16	100.00	1975	42.21	100.00	30.82	

2.3 DISTRICTWISE CLASSIFICATION OF LOAN APPLICATIONS :

From the point of view of the allotment of Funds in Kolhapur Region MSFC has treated three districts covering Kolhapur, Sangli and Satara to constitute Kolhapur Region.

Table No. 2.2 shows the details regarding Districtwise classification of Loan Applications Sanctioned and amount disbursed to Kolhapur Region for the years 78-79 to 82-83.

Taking into consideration the sanctions & disbursements for the three districts of Kolhapur Region, it may be observed that Kolhapur district claims for highest share both in respect of sanctions as well as disbursements. The total loan applications sanctioned indicate rising trend in terms of amount from Rs. 11.13 crores in the year 1978-79 to Rs. 16.84 crores in the year 1981-82 and reflects a marginal fall in the amounts sanctioned in 1982-83 when loans of the orders of Rs. 16.16 crores were sanctioned. Thus indicating an increased of 45% over five years giving 9% rate of growth per annum.

Taking into consideration the amount disbursed, Kolhapur district claims for around half of the total disbursements for the region. It is worthwhile to mention that the highest amount disbursed valued at Rs. 14.08 crores in the year 1980-81 from Rs. 8.36 crores in the year 1979-80. However, comparing the amount disbursed for the first and the last year of the period covered by our study it

SHIVAJI UNIVERSITY LIBRARY KOLHAPUR

47% increase over the Five year showing around 9.5% annual rate of growth. If MSFC wants to achieve rapid industrialisation in the region and attend optimum utilisation of the resources both human and material there is a need to step up financial assistance for Kolhapur district. When tremendous potentialities are already in existence there is no harm to direct and control these potentialities by catalizing investment with the help of financial institutions like MSFC in order to promote Socio-economic welfare of the masses residing in rural and remote areas of the district. It is true that Kolhapur district is often described as a potential growth centre in the western part of Maharashtra. Radhanagari Taluka of Kolhapur district has already been indentified with rich deposits of Alluminium. Once a big public sector undertaking starts functioning in this region, it may provide necessary incentives for a large number of small-scale industries to get themselves established and developed in the region.

Kolhapur district is also famous for its White Revolution. A big dairy project has already started functioning near Uchagaon in Karveer Taluka of Kolhapur district and it is expected that such activities will help to provide employment to the unemployed and raise the real per capita income of those who are directly and indirectly connected in the supply of raw materials like milk.

Next in importance stands Sangli district x which claims for around 1/3rd of the total sanctions and disbursements. The total sanctions for the district also indicate a more or less rise in trend and the disbursements have been a increased nearly by the double during the period covered by 1978-79 to 1982-83.

Satara district although claims for the lowest share in the region indicates increasing trend both in respect of Sanctions and Disbursements. The total amount disbursed valued at about Rs. 2.00 crores for Satara district in the year 1978-79 which increased to about Rs. 9.00 crores in the year 1981-82 but decreased to about Rs. 7.00 crores for the year 1982-83.

TABLE NO. 2.2

DISTRICTWISE CLASSIFICATION OF LOAN APPLICATIONS SANCTION & AMOUNT DISBURSED
(Administrative Regions)

KOLHAPUR REGION

1978-79		1979-80		1980-81		1981-82		1982-83	
ions	Disbursed	Sanctions	Disbursed	Sanctions	Disbursed	Sanctions	Disbursed	Sanctions	Disbursed
13	8.88	12.16	8.36	13.59	14.08	16.84	11.04	16.18	13.09
88)	(60.74)	(42.07)	(40.27)	(49.45)	(56.30)	(39.48)	(44.07)	(40.33)	(47.24)
50	3.56	10.13	6.23	7.26	5.95	12.34	5.28	17.49	7.79
14)	(24.35)	(35.05)	(30.30)	(26.42)	(23.79)	(29.94)	(21.08)	(43.59)	(27.82)
9	2.18	6.61	6.63	6.63	4.98	13.47	8.73	6.45	56.91
8)	(14.91)	(22.88)	(29.78)	(24.13)	(19.91)	(31.58)	(34.85)	(16.08)	(24.94)
2	14.62	28.90	20.79	27.48	25.01	42.65	25.05	40.12	27.71
3)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00)	(100.00	(100.00)	(100.00)	(100.00)

NOTE :

17th Annual Report 1978-79 P 54

2.4 NURSING OF SICK UNITS BY M.S.F.C. :

".....,, the happiness of the society is equivalent to the sum total of happiness of all individuals in Society" *7.

Sickness in industry is as old as industrial development. It is not peculiar to India alone but it is found all over the world amongst different countries. The causes of sickness, extent of sickness etc. factors responsible for sickness may vary from country to country. In India this aspect has received more attention from the beginning of present decade on account of high and rising incidence of sickness especially in case of Small-scale industries which are observed to be more susceptible to sickness on account of their size.

By the end of June 1979 the number of sickness units had gone up to 345 and the amount of bank credit outstanding against these units had increased to Rs. 1,101 crores. By the end of December, 1979 the number of such sick units increased to 378 and the bank credit outstanding against them rose to Rs. 1,158 crores. In addition to the sick large and medium scale units the number of sick small-scale units had gone up from 16,805 at the end of June 1979 to 20,975 at the end of December, 1979 and the outstanding bank credit increased from Rs. 181 crores at the end of June 1979 to Rs. 262 crores at the end of December, 1979. Thus, the total number of sick units, large,medium

---

*7 Dr. M.C. Dixit, Economics Policy and Planning, Ujwal Granth Bhandar, Pune-2, 1st Edition 1973, Pp.145.

and small together was 21,353 at the end of December,1979 and the total amount of bank credit outstanding was of the order of Rs. 1420 crores.

There are many symptoms of industrial sickness but no one symptom by itself would be considered as an indicator of weakness and it is only when several of these factors appear simultaneously, it creates a climate of anxiety. The banks are in close contact with day to day problems faced by industrial units and hence they may be expected to watch carefully the following symptoms of sickness:

i) Continuous irregularity in cash credit account
ii) Profit fluctuations, decreasing trend of sales and stagnation.
iii) Failure to pay statutory liabilities.
iv) Higher rate of rejection of goods, manufactued by the company which often allows highest discount.
v) Constant utilisation of cash credit facilities to the hilt and failure to pay timely instalments of the principal and interest in respect of term loans etc.
vi) Weak equity base and decrease in working capital.
vii) Rapid turnover of key personnel and sudden as well as frequent changes in management.
viii) Diversion of funds for purposes other than running the unit.

In this context it may be noticed that the phenomena of industrial sickness does not develop suddenly and hence

it is the duty of the management and financial institutions financing the unit to pay proper attention towards the warning signals. The sickness at the unit level may be due to certain causes like operation of market forces, introduction of new products, new technologies, changing tests and preferences of the consumers, etc. Hence it has to be tackled individually after indentifying and locating the real sickness. But if the sickness assumes the form of an epidemic, it will be the task of industrial policy and economic policy to take necessary steps to control it.

As the phenomena of sickness of industrial unit is complex in nature, a large number of causes may be mentioned to be responsible for its sickness although it is true that several causes may appear simultaneously.

The most important causes are : incompetent and dishonest management, failure of market forecast, financial indiscipline and precautious liquidity position of the unit concerned, old and worneout machines, technical obsolescence, lack of technical knowledge, demand constraints, shortage of working capital and promoter's contribution, Labour trouble, escalating costs, delays in payment by large units and by Government Departments, lack of quality and shortage of inputs.

Other causes include shortage of water and power supply, high prices of land, labour and material, communication difficulties including rail, road, telephones, lack of amenities for hospitals, housing, schools particularly in backward areas which lead to industrial distress. Similarly procedural delays, lack of upto-date project profiles, proper guidance for would be entrepreneurs in the choice of industry best suited for a particular location, filling up voluminous forms and proliferation of borrowing institutions causing at times more confusion than assurance of assistance. Lack of co-ordination between the various authorities and agencies concerned has also been observed to be most important factor responsible for causing sickness.

The main reasons of growing sickness in case of small-scale industries may be classified under three broad heads:

1. financial,
2. entrepreneurial and
3. marketing.

As the large number of small-scale units had to depend upon external resources, they suffer from inadequate equity capital and they are unable to meet the challanges emerging from fluctuations in demand. Also owner managers of small-scale units lack in adequate training, suffer from inadequate capital and are characterised by lack of specialised skills. The small-scale units also have to face special difficulties in respect of marketing. They

usually experience shortage of raw materials. It is in this context that it was once suggested that the Government should directly or indirectly through its departments and marketing consortia purchase at least 40% of their products.

In order to achieve healthy growth of small-scale units, it is necessary to satisfy certain requirements like, a change in the outlook and lending policies of banks in favour of small units especially for providing working capital, proper technical marketing and managerial assistance from the Government, prompt payments by large units to small units for the goods purchased or goods processed, passing of appropriate labour laws including a separate minimum wages Act for small units, revision of present tax laws to accomodate new incentives to small industries, to Small entrepreneurs to enhance job opportunities, extending facilities that are enjoyed by managing directors to small entrepreneurs and provision of better marketing facilities. The establishment and development of District Industries Centres is a step in right direction as they are set up to provide all the facilities to small units under a single roof.

The rehabilitation of small-scale units is only possible when the Government and financial institutions including banks view the problems of sick units with a great sympathy and proper understanding. During the period of

their difficulties they should not be burdened and they should take every step in order to see that ultimately they stand on their own feet.

At present small-scale units suffer from poor equity base which has been the most important factor giving rise to growing sickness. It is often argued that the measures should be adopted in such a way that their equity base is strengthened. The poor equity base and excessive dependence on loans make the units weak in two ways. Firstly, it increases the interest burden which usually forms a substantial cost component. Secondly, the poor equity base reduces considerably the additional borrowing capacity of the units in times of urgent necessity.

It has been suggested that an equity fund may be created and certain models of administering assistance out of this fund could be evolved jointly by a group of banks and term lending institutions. Such an arrangement could be made on the following lines :

i) Assuming the debt-equity ratio 1:4 as reasonably satisfactory, any shortfall in the owned funds to this extent should be given as equity loan.

ii) Maximum ceiling for equity loan may be fixed at Rs. 1 lakh so that major beneficiaries will be small units.

iii) In case of non adherence of financial discipline by entrepreneurs the facility should be withdrawn by converting it into interest bearing credit.

It has been rightly observed that "the point in general is that unless one is able to seggregate the financial burden of the past from the future potentitial of the unit it would be extremely difficult in most cases to bring about the revival of a sick unit without considera--ble costs to the tax payer."

Under the present circumstances it is the ultimate responsibility of the bank or the financial institution which has to bear all the risks involved in the process of making sick unit an healthy one. Even if the unit experiences increasing sickness the financing agency has to continue its financial assistance as there is no hope of rehabilitation without such a finance and also there is no hope of repayment without rehabilitation. Since the banks are using public funds, they must be very careful in financing sick units and hence they have to adopt a practical approach. As the banks are unable to give adequate personal attention it is necessary to take external help. It is in this respect that the financial institutions will have to be more prompt and more practical, if they are really serious about the recovery of the amount and revival of the unit.

The performance of the financial institution should be judged not by the volume of assistance they advance but

by their capacity to preserve the health of the units assisted by it. Since mismanagement is a major factor responsible for sickness, the financial institution initiate the introduction of a suitable management accounting system as a pre-requisite for sanction of loan. When sickness is the result of mismanagement financial institution may insist on change in management or at least on a strict control of the inflow and outflow of funds and managerial functions of the management. Rehabilitation Programme would be more rewarding if the Government, banks and financial institutions show the political and financial courage to write off the past liabilities.

There has to be a meaningful rapport between the management and financial institutions. Many a times banks may find themselves to be helpless in controlling the sickness. as the finance can only be an instrument of adjustment assistance, the burden of financial institutions of assisting the sick units need to be minimised by integrating the problem of industrial sickness with industrial planning in general and financial institutions should only support instead of supplanting the initiative of the entrepreneurs of the sick units. It is the entrepreneurial ability on which the problem of revival depends only to those having initiative, drive and capability.

The present economic scene of Indian economy has been characterised by the fact that every financial institution and bank carries with it a certain number of sick units. Maharashtra State Financial Corporation is no exception to this rule especially when the role of developmental banking has been played by it in its proper perspective. Identification of sick units, apart from accounts in defaults has been observed to be a very slow process as it has to be carried out on a systematic and scientific manner as laid down by the Reserve Bank of India in its various circulars relating to the subject. By the end of 1979-80 MSFC has identified 413 units as genuine and deserving sick units and granted them necessary need based assistance in order to rehabilitate sick units from among its assisted units.

MSFC has taken interest in helping its assisted units in times of difficulties. Earlier this process was rather slow but now on the basis of experience gained in the past, MSFC has evolved a well thought out package of concessions and assistance for the sick units. Since October 1977 MSFC has adopted a new strategy in this field when a sense of dynamism had been injected into the sphere of activity of the Corporation. It is out of this package that assistance is granted to individual units according to their individual requirement and merits. MSFC is described as the first and only MSFC to have pioneered such a package of concessions. Under the package of concessions non insistance on sticking to the regular schedule

of repayment of principal and giving the unit more time forms an essential ingredient of new programme. This is the first dose of the package of concessions for the sick units. Rephasing of instalments are fixed after taking into consideration the projected performance. This is known as ballooning system.

Some times it is observed that one of the causes of sickness is a power shortage. MSFC has come forward in helping to solve this problem also. Under the scheme the assisted units are provided with loans on liberal terms for power generators. A large number of units have taken the advantage of this scheme. Even non assisted units can take advantage of this measure.

Another remedy provided by MSFC is to charge the suffering units the original rate of Interest for the duration of the contractual period instead of the current rate which might have been subsequently revised. A part of this measure is to waive penal interest either in full or in part. Besides accumulated interest payments are allowed to be paid over a fairly long period depending on the cash generating capacity of the unit and repayment obligations to other institutions and the need for ploughing back to build up adequate working capital.

MSFC also considers sanctioning additional loans for balancing equipments diversification or modernisation of

machinery to assist speedy rehabilitation of sick units.

In order to achieve success in rehabilitation performance MSFC uses its good offices on behalf of the sick units by assisting them in securing raw materials by recommending the same to the Government and other agencies concerned like MSIDC, similarly problems of availability of the other inputs are also taken up withe the concerned authorities and departments.

MSFC in order to provide need based assistance, does not confine itself only to giving loans against fixed assets but also extends facilities of financial assistance for other assets indispensable for running of a particular industry, e.g. fixtures, jigs, moulds, types for printing presses etc. This has been proved to be of great assistance to the sick units.

Very often the cause of sickness is non availability of or absence of timely availability or shortage of working capital from the banks which are primarily responsible for providing working capital. MSFC has settled arrangements with several leading banks whereby it coordinates its activities for rehabilitation of sick units to ensure the required working capital availability to such units. As a part of this package the Corporation also considers granting Second charge to the Bank if required as part of the joint nursing programme.

MSFC while taking the decisions in respect of assistance, the affairs of the unit, its financial performance and position analyses in details. Its future performance is also checked. It is also verified that the circumstances leading to the sickness were mostly beyond the control of the entrepreneur and that there has been no siphoning off of funds. The schedules for payment are fixed after considering these aspects and also considering the stage at which the concern crossed the break even point. An attempt is made to do all this most expeditiously so as to arrive at appropriate decision in the manner which can be as quick as possible.

Although MSFC is taking necessary steps to avoid sickness of the assisted units as well as helping rehabilitation programme of sick units its long term strategy to arrest industrial sickness should include :-

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 capital.
iv) Streamliving the system of follow up by the financial institutions.
v) Approaching the problem with proper interinstitutional co-ordination.