

Manini Monalisa Pradhwan

SICKNESS IN SMALL INDUSTRY

- A business is considered to be sick when it has an unsatisfactory financial position and its status gradually degrades with every year.

- In a sick industry/business the capital reserve gradually spread out and in most of the cases it brings losses to the organization.

Q1) According to Sick Industrial Company Act (SICA), 1985

"An industrial company (being a company registered for not less than 7 yrs), which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and ^{has} also suffered from cash losses in such financial year and the ^{financial years} immediately preceding financial year."

- That means an industrial unit/company is defined as the sick if it was registered for at least 7 yrs, it incurred cash losses for the current year and for preceding years; its net worth was eroded.

Q2) According to RBI: The industrial sickness may be defined as follows: -

a) sick industry/unit is one which incurs cash losses for one year in the judgement of bank; it is likely to be incur cash losses for current year as well as following year.

b) The unit has an imbalance financial structure.

c) ^{when} the cumulative losses exceeds capital & reserve.

- A business sickness normally occurs when current liabilities exceeds over current assets; in such situation the organization may not be in a position to pay the liabilities. That means RBI defined sickness on liquidity, profitability and solvency.

According to Company Act, 2002, Sick industrial company means an industrial company which has -
 ✓ accumulated loss in any financial year which are equal to 50% or more of its average net worth during four years immediately preceding such financial year.

Signals of Sickness:

The industry does not fall in sick overnight rather the process of sickness or failure can be take several years. This implies that the sign of sickness may be noticed/

discernable quite early in the life of an industry.

- These warning signs in several functional units/area are termed as "signals"

- (i) Decline in capacity utilization
- (ii) shortage of liquide funds (cash, cheque, demand draft) to meet short-term obligation
- (iii) inventories in excessive manner.
- (iv) non sub-mission of data to banks & financial institutions.
- (v) irregularities in maintaining ^{bank} accounts
- (vi) decline in product quality and services.
- (vii) delay in payments of statutory dues e.g. ~~Prof~~ provident funds, sales-tax, excise duty.
- (viii) frequently breakdown of equipments and machinery.
- (ix) decline in technical deficiency.
- (x) frequent turn-over of personnel in industry...

Cause
1
of S

- Bas
ma

Intern
- 9,
are
inte
Plan
adv

1. Plan
ay.

- is
K
di

Pro
2. Dm

Symptoms of Industrial Sickness:

- The persistence of various signals over a period of time horizon, become symptoms of industrial sickness.
 - The various symptoms ultimately reflect on plant performance, capacity utilization, financial ratios, production, marketing share market price & labour relation in the industry.

- Important symptoms are...

- 1) persisting shortage of cash.
 - 2) deteriorating financial ratio
 - 3) continuous tumble in the price of market share.
 - 4) widespread use of credit a/c
 - 5) delay and default in payment of statutory dues.
- * fall or causes to bring down.

* Failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by a creditor of such company.

Manas K. Nayak.
Asst. Prof. PCC, RKL

6) frequent request for loans to banks & financial institution

7) Delay in audit of annual account

8) degradation of employee's morale and desperation among top and middle management.

Causes of Sickness:

A no. of reasons may be attributed for the sickness of SSI in country due to.

✓ management deficiency.

✓ Inadequate and timely unavailability of finance

✓ outdated technology and

✓ marketing problem.

- Beside these, the main causes for industrial sickness may be internal (or endogenous) causes and external (or exogenous) causes.

Internal causes or Endogenous causes:

- Internal causes or endogenous causes are those which are within the control of unit. These causes arise due to internal deficiencies in the functional areas like planning, implementation, production, marketing, finance, administrative and entrepreneurial causes.

1. Planning:

a) <u>Technical feasibility:</u>	b) <u>economic viabilities</u>
- inadequate technical knowledge, locational disadvantage, outdated production process	- high cost inputs
	- BEP is high.
	- over estimation of demand
	- uneconomic size of product

2. Implementation:

- cost over run caused from delay in ^{getting} license and sanction.

- inadequate mobilisation of finance.

3. Production:

a) Production mix:

- ✓ inadequate production mix.
- ✓ poor quality control.
- ✓ poor capacity utilization
- ✓ high cost production wastage.
- ✓ inadequate maintenance and replacement

b) Labour management

- ✓ excessive high wage structure.
- ✓ low labour productivity
- ✓ inefficient handling of labour problem
- ✓ Lack of trained & skilled labour.

4. Marketing

- ✓ Poor sales promotion
- ✓ defective pricing policy
- ✓ Lack of marketing research & development

5. Financial management

- ✓ poor financial planning
- ✓ poor resource management.
- ✓ Liberal dividend policy.
- ✓ inadequate working capital.
- ✓ absence of cost consciousness

6. Administrative Management:

- Lack of professionalism.
- Lack of management information system.
- Excessive expenditure on R & D.
- Lack of control.
- incompetent management.

7. Entrepreneurial Causes:

- improper planning
- Attitude of entrepreneur.
- Lack of creativity, innovation & skills.
- improper selection of business opportunity
- Lack of experience.
- intentional sickness.
- Lack of entrepreneurial characteristics.

External (or Exogenous) Causes

External or exogenous causes are those which are beyond the control of unit, usually affect the industry as a whole.

The main causes are:

- ✓ 1. infrastructural bottlenecks: Non availability of and irregular supply of crucial raw materials or other inputs.
2. changes in Industrial policy of Govt. from time to time.
3. Lack and shrinkage of demand for product.
4. Recessionary trends having in the country.
5. Frequently industrial strikes & Labour unrest.
6. Shortage of finance resources especially working capital.
7. Natural causes like flood, cyclone, drought, earthquakes.
8. Liberalization & Globalisation of economy.
9. Non acceptance of product by customers.
10. Shortage of power.
11. When supply is more than demand.

Q.2 Consequences of Industrial Sickness:

- The main evil/consequences of industrial sickness are

(1) huge financial losses to bank and financial institution.

(2) Loss of employment opportunities.

(3) Emergence of Industrial unrest.

(4) Adverse effect on prospective Investors and Entrepreneur.

(5) Wastages of scarce Resources

(6) Loss of Revenue to the Government.

1. Huge financial losses to bank & financial institution:

- The bank and financial institutions provides substantial funds to start an industry. If the industry leads to sick or weak, it reduces the future lending capacity of bank & financial institution.

- Further recovery of overdues takes an unduly longer period of time and most of the cases a small portion of overdues amount is recovered.

- Thus these bear an adverse effect on the financial status/health of banks & other financial institutions.

2. Losses of Employment Opportunity:

- One of the important consequence of Industrial sickness has been losses to employment and thereby aggravating the most dangerous socio-economic problem of employment in labour surplus economy like our.

- According to estimate nearly 30 lakhs of workers are likely to be affected by the sick & weak units i.e. about 6% of total employment in industrial sector is likely to be affected by industrial sickness.

3. Emergence of Industrial Unrest:

- The industrial sickness not only causes unemployment but also leads to industrial unrest.
- Whenever the workers are retrenched (rendered out of jobs), the trade union oppose it and resort to industrial strikes.
- Such disturbance threaten the peace and tranquility of the industrial environment and result in setbacks in industrial production.

4. Adverse effect on

Prospective Investors and Entrepreneurs:

- Industrial sickness adversely effect on prospective investors and entrepreneur
- Due to sickness the market share price of the unit tumble down, which in return adversely affect the stock market of the country.
- In this way industrial sickness creates psychology of despair for investment among prospective investors.
- Add to this, the failure and disclosure of unit act as unhappy example of disincentive to the prospective entrepreneur who are planning to plunge into the same line of production

5. Wastage of scarce Resources:

In an under-developed economy like ours, the resources are already scarce. If those scarce resources are locked up in sick units, it become the wastage of scarce resources which otherwise would have yielded substantial return to the economy.

6. Losses of Revenue to the Govt.

The Govt. raises a substantial portion of its revenue from industrial unit by way of various taxes and duties levied on them. But when a large no. of industrial

unit become sick, the possibility for raising substantial revenue from the sick units by various levies are greatly reduced.

The planning commission (1983) commenting on the consequences of industrial sickness mentions:

4. The phenomenon of industrial sickness not only tends to aggravate the problem of unemployment, but also renders in future capital investment and generally creates an adverse climate for further industrial growth. But such sickness has much more serious economic consequences in a country where unemployment is a major problem and resources are scarce clearly the problem of industrial sickness is an area to which the govt. must give priority.

Thus Industrial sickness is a bane on the Indian economy.