

PART III

BANK LENDING TO INDUSTRY

- Section 1 Background and Main Features of the New Bank
Lending System**
- Section 2 Analysis of Industrial Advances**
- Section 3 Bank Lending and Industrial Sickness**

PART III : BANK LENDING TO INDUSTRY

Section III.1 Background and Main Features of the New Bank Lending System

who appointed this study group

The imbalance between demand for and supply of bank credit and the felt-need for reform in the lending system of banks led to the appointment of the study Group in July 1974 to frame guidelines for the follow-up of bank Credit. The Study Group submitted its Interim Report in November, 1974, in which it suggested norms for holding current assets in respect of major industries. The Reserve Bank of India accepted the interim recommendation and directed the banks to implement the recommendations with immediate effect. The final report was submitted in mid-1975 which was, by and large, accepted by the R.B.I. for implementation with effect from August 1975. The present system of bank lending called in this study the New Bank Lending System (NBLS) is essentially based on the recommendations of the Study Group with some procedural changes introduced over a period of time.

Main Feature

The operative part of the New Bank Lending System (NBLS) may be understood under the following heads :

- (i) Norms;
- (ii) Rules for Lending; and
- (iii) Follow-up System

Norms

Norms are applicable to the industrial borrowers whose limits for working capital finance from the banking system exceed Rs.10 lacs. The Committee laid down norms only for 15 industries.

Subsequently, the Marathe Committee constituted in November 1982 recommended that industry-wise sub-committees be formed to review the existing inventory norms and prescribe norms for more industries.

Accordingly, over a period of time, the Reserve Bank of India constituted various industry-wise sub-committees and their recommendations were adopted by the Committee of Direction.

(COD) of the RBI and banks were accordingly advised.

inventory norms prescribed so far, for 41 segments/groups under various types of industries, as corrected upto June 1989, are given below:—

Table III.1

NORMS FOR CHARGEABLE CURRENT ASSETS

St Industry No	Raw materials including stores and other items used in the process of manufacture (Months Consumption)	Stocks in Process (Month's cost of production)	Finished goods (Month's Cost of sales)	Receivables (Month's sales)
(1)	(2)	(3)	(4)	(5)
A TEXTILES				
1 Cotton/Blended Textile Mills	i) Raw cotton Bombay & Ahmedabad Eastern Region Other Areas ii) Synthetic Fibre/Yarn iii) Cloth Processing Mills iv) Other raw materials	2 3 3 2.5 1.5 0.5 2	i) Composite Mill ii) Spinning Mill iii) Processing Mills i) Weaving Mills ii) Processing Mills (Including composite Mills & others)	1.5 0.5 0.75 0.5 0.75 0.75
2 Silk & Art silk Textile Mills	i) Synthetic Yarn ii) Cloth (Processing Mills) iii) Other Materials (Inclusive of stores and consumable items)	1 0.5 2	i) Weaving Mills ii) Processing Mills (Including composite Mills & others)	i) Weaving Mills [-----1.5-----] ii) Processing Mills (Including composite Mills & others) [-----2.5-----]
3 Woollen Mills	i) Raw Wool ii) Ranges & Wastage iii) Synthetic Fibre/Yarn iv) Other Materials (Inclusive of stores and consumable items)	3 3 1 2	1.25	i) Off season (April-September, peak period) [-----4-----] ii) Busy season (October-March, non peak period) [-----3-----]
4 Man made/Synthetic Fibre Industry	1.5		0.5	[-----2-----]
5 Jute Textiles	2.5	0.33		i) For domestic sales 1.0 ii) For Exports 1.5
B RUBBER & TYRES				
6 Rubber products	2			
7 Type	2 (Inclusive of both import & indigenous)	0.25 0.5		[-----1.75-----] [-----2-----]
C FERTILIZERS				
8 a) For Nitrogenous	i) Units near refinery ii) Units away from refinery	0.75 1.5	Negligible	i) Busy season 1.5 (Oct-Feb) ii) Off season 2.00 (March-Sept)
b) Single Super Phosphates (SSP)	i) Units port areas ii) Units away from port areas	2 3	Negligible	i) Busy season 1.5 (Oct-Feb) ii) Off season 2.00 (March-Sept)
c) Complex Fertilizers	i) Units port areas ii) Units away from port areas	2 3	Negligible	i) Busy season 1.75 (Oct-Feb) ii) Off season 2.25 (March-Sept)

Table III.1

NORMS FOR CHARGEABLE CURRENT ASSETS (contd. 2)

Sl. No.	Industry	Raw materials (including stores and other items used in the process of manufacture) (Months Consumption)	Stocks in Process (Month's cost of production)	Finished goods (Month's Cost of sales)	Receivables (Month's sales)
(1)	(2)	(3)	(4)	(5)	(6)
D CHEMICALS					
9	Drugs & Pharmaceuticals	2.75	0.75	1.5	1.5
10	Dyes and Dyestuffs (Dye Intermediates)	i) imported/canalised 2.5 ii) Indigenous non-canalised 2.25	1	[-----3.5-----]	
11	Pesticides and weedicides	2.75	0.75	2.00	1.50
12	Paints and varnishes	2.25	0.5	1.50	2.00
13	Petrochemicals	1.5	0.50	1.00	1.50
14	a) Speciality Chemicals	1.5	0.75	1.50	2.00
	b) Inorganic Chemicals other than fertilizers	2	0.5	1.00	2.00
E VEGETABLE OILS					
15	Vegetable & Hydrogenerated Oils	1	Negligible	[-----0.75-----]	
F PAPER					
16	Paper	A IMPROVED			
		i) Pulp, waste paper Cuttings etc.	4		
		ii) Felts and wires	6		
		B INDIGENOUS			
		i) a) Bamboo, wood, bagasse straw etc.	6		
		b) Waste paper rags leads etc.	3		
		ii) Chemicals	2		
		iii) Coal (+2 months for mills using bagasse as raw material)	2 7 days	1.00	2.00
		iv) Felts and wires	3	[-----2-----]	
G CEMENT					
17	Cement	i) Gypsum 2.25 ii) Limestone 1.25 iii) Coal 2 iv) Packing materials 1.5	0.5	[-----2.5-----]	
H ELECTRICALS					
18	Bulbs, Fluorescent Tubes and Dry Cell Batteries	i) Imported 4 ii) Indigenous 2.5	0.50 1.00	[-----3-----]	
19	Storage batteries	i) Imported 4 ii) Indigenous 2.5	1	[-----3-----]	

Table III.1

NORMS FOR CHARGEABLE CURRENT ASSETS(contd. 3.)

Sl. No.	Industry	Raw materials (including stores and other items used in the process of manufacture) (Months' Consumption)	Stocks in Process (Month's cost of production)	Finished goods (Month's Cost of sales)	Receivables (Month's sales)
(1)	(2)	(3)	(4)	(5)	(6)
20	Fans	i) Imported ii) Indigenous	3 1	0.50	[-----4-----] For off season [-----2.5-----] During season
21	Transformers	Import & Indigenous	2.5	2.0	1.5 2.0
22	Switchgears	Import & Indigenous	2.5	0.5	1.5 2.0
1	ENGINEERING				
23	Engineering : Customer durables	2		0.75	[-----2.5-----]
24	Four wheelers and Commercial Vehicals	Indigenous	2.25	0.75	[-----2.5-----]
25	Two wheelers and Autorickshaws	2.25		0.75	[-----2.5-----]
26	Agricultural Machinery	2.25		0.75	[-----2.5-----]
27	Ancillary Industries	2.25		0.75	[-----2.5-----]
28	Machinery other than Electrical Machinery	2.75		1.50	[-----3.5-----]
29	Electrical Machinery	2.75		1.25	[-----3.5-----]
30	Machine Tools	2.75		1.25	[-----3.5-----]
31	Electrical Cables, wires, etc.	2		0.75	[-----2.75-----]
32	Steel, tubes, pipes, nut bolts, bars etc.	2		0.75	[-----2.5-----]
33	Bearings	3		1.00	[-----3-----]
34	Other Engineering Industries (Excluding heavy Engineering)	2.25		0.75	[-----2.5-----]
3	LEATHER				
35	Lather Manufacturers (i.e. those engaged in processing of raw hides and skins into finished lather and its products)	[-----3.5-----] (Combined level)			[-----2.5-----] (Combined level)
K	GLASS & CREAMICS				
36	Glass	2.5		Nil	[-----3.25-----]

TABLE III.1

NORMS FOR CHARGEABLE CURRENT ASSETS (contd. 4.)

Sl Industry No	Raw materials (including stores and other items used in the process of manufacture) (Months Consumption)	Stocks in Process (Month's cost of production)	Finished goods (Month's Cost of sales)	Receivables (Month's sales)	
(1)	(2)	(3)	(4)	(5)	(6)
<hr/>					
37 Creamics :					
a) Insulators	3	1.00	[-----3.5-----]		
b) Other items	3	0.50	1.00		1.00
L BREWERIES & DESTILLERIES					
38 Breweries	i) Hops 3	0.5	0.75		1.00
	ii) Malt, other raw materials & packaging materials 2		1.00		1.00
39 Distilleries	3	0.25	1.00		1.00
	(If allotment of molasses is on monthly basis, the norms should be suitably reduced, say to one month)				
M FOOD PRODUCTS					
40 a) Flour Mills	1	Nil	0.25		1.00
b) Biscuits and Bakery Products	1	3 days	0.50		0.50
N DIAMOND					
41 Diamond Exporters	[-----3.5-----]		1.50		3.00
	(Combined Level)				

Source : Obtained from the reserve Bank of India, Bombay.

Apart from the above norms have also been prescribed for determination of Maximum Permissible Bank Finance (MPBF) in respect of :

(a) Computer software industry

- (i) Programming services : MPBF based on the gaps in the
- (ii) Customised application development contract : cash flows and matching limit against receivables.
- (iii) Package software products :

(b) Leasing

(i) Maximum permissible limit for bank lending

Lending to leasing concerns should be, inter alia, linked to their net owned funds (NOF) and it should not exceed three times their NOF within the prescribed overall ceiling of ten times their NOF for their total external borrowings.

(ii) Computation of maximum permissible bank finance (MPBF)

'Receivables' of leasing concerns consist of 'lease rentals' which are in the nature of outstanding credits.

MPBF is calculated as under :

(a) Outstanding credit for a period of
years for each lease transaction

$$= \frac{\text{Lease rentals due during next 5 years}}{\text{Total rentals due under the transactions}} \times \text{Cost of the assets leased}$$

(Note : lease rentals fallen due but not collected are excluded while computing outstanding credits')

(b) Drawing limit

While the outstanding credit is to be arrived at on the above base, the drawing power within the credit limit has to

be worked out by deducting margin which should be less than 25 per cent.

(c) Hire purchase ✓

(i) Maximum permissible limit for bank lending as applicable to leasing.

(ii) Computation of MPBF

HP concerns show stock on hire under HP agreements at full value under current assets and unmatured finance charges (UFC) under current liabilities.

Net current asset - SOH - UFC

MPBF, - Net current asset less

Net working capital

- 75 per cent of net current assets.

Notes

(i) Raw materials are expressed as so many months' consumption. They include stores and other items used in the process of manufacture.

(ii) (a) Stocks-in-process are expressed as so many months' cost of production.

(b) In individual cases, the bank may deviate from the norm for stocks-in-process if it is satisfied that the actual process time involved in any particular unit, say, in view of the nature of production, past experience and technology employed, is more than the norm suggested.

(iii) (a) Finished goods and receivables are expressed as so many months, cost of sales and sales respectively. This figures represent only the average levels. Individual items of finished goods and receivables could be for different periods which could exceeds the indicated norms so long as the overall average level of finished goods and receivables do not exceed the amounts as determined in term of the norm.

(b) The norm prescribed for the receivables relates only to inland bills on short term basis (i.e. excluding receivables arising out of deferred payment sales and exports).

Norms relate to Chargeable Current Assets (CCA) comprising inventory and receivables as given below.

$$CCA = TCA - OCA, \text{ or}$$

$$= I + R,$$

where,

$I = RM \& CS + WIP + FG + Sp$ in which

RM & CS = Raw Materials and Consumable Stores

WIP = Work in Process

FG = Finished Goods Stock

Sp = Spares

R = Receivable of book debts arising out of credits given/credit sales.

In order to ensure that industrial units hold inventories and receivables only necessary for their operations so that dead slow moving, speculative and flabby inventories are

eliminated, certain rules to calculate the acceptable level of chargeable Current Assets (CCA) which the borrower may be permitted to carry, have been framed, as given below (14) :

(1) The past practice of the borrower must be ascertained by calculating the holding of raw materials, work-in-process, finished goods and the level of receivables from the past, financial data in relation to consumption of raw materials, cost of production, cost of sales and gross sales, respectively.

(2) The past holding ~~must be compared~~ to the norms to identify the lower of the two, as the norms were not suggested as entitlements but were the upper limits for the holding of inventory and receivables.

*This is all reproduction
to records
without any*

(3) The Banker has to consider the past practice or norms, whichever is lower. This rule is meant for determining the maximum holding of inventory and level of receivables which is allowable for the next year.

While computing the norms for inventories and receivables, banks are expected to take note of the following facts (15) :

(1) So far as the norms for receivables are concerned, these are only for receivables arising out of inland, short-term sales and not for receivables

relating to deferred sales and export sales.

- (2) In the individual cases, the bank may deviate from the norms for Stocks in process, if it is satisfied that the actual process time involved in any particular unit is more than the norms suggested especially in the view of the nature of production, past practice and the technology employed.
- (3) In case of imported materials, comprising a major portion of raw material requirement, deviations may be allowed after considering factors such as volume, frequency of import, past levels etc. This deviation should be restricted only to raw materials imported directly by the borrower under his actual user's License.
- (4) The accepted level of stock of spares should be either the expected consumption of spares for the projected year or 5 per cent of the accepted level of inventory, whichever is lower. Any excess of spares over and above this level will have to be treated as non-current assets.
- (5) Clubbed norms for more than one item of chargeable current assets in case of some industries have been presented.

Deviation from Norms

Norms for inventories and receivables cannot be changed for

individual borrowers. They can be changed for the entire industry; but only by the Committee of Direction of the Reserve Bank of India. This committee can change the norms on the basis of representations made by either the Bank or the Industry's representatives.

In the following six cases deviations are permitted for a short period of time (16) :

- (1) Bunched receipts of raw materials including imports.
- (2) Power-cuts, strikes and other unavoidable interruptions in the process of production which will effect raw material stock.
- (3) Transport delay and bottlenecks which will affect finished stock.
- (4) Accumulation of finished goods due to non-availability of shipping space for export or other disruptions in sales, but not under circumstances where a sales stimulation is needed through reduction in prices.
- (5) Built-up stock of finished goods such as machinery, due to failure on the part of purchaser, for whom these were specifically made, to take delivery: and
- (6) Need to cover full or substantial requirements of raw materials for specific import contract of short duration provided there is no escalation clause in the contract.

The above deviations are permitted only for temporary periods. The units are expected to carry the normal levels of

CCA as soon as these circumstances get over.

Thus norms are prescribed separately for raw materials, stock in-process, finished goods and receivables and all borrowed units are expected to comply with each of the norms. Interchangability of norms within the total sanctioned limit, in the sense of permitting holding of higher level of say, raw materials, because of lower levels of finished goods, etc. is not allowed.

Rules for Lending

The following two rules for lending are followed under NBLs:

(i) Subject to certain listed exceptions, the maximum permissible levels of inventory and receivables should be equal to the norms or the past practice, whichever ever is lower, and it also means that the current ratio of the firm will be higher in case of the second method, compared to the first. The implication of this method is that the ratio of Bank Credit to CCA will be lower in the case of the second method.

(ii) Each borrowal unit must have a positive net working capital (NWC).

It means, a part of the current assets must be financed by the borrower for his long-term funds.

Methods of ascertaining PBF

There are two methods of calculating the permissible bank

finance under the new system which are explained below:

First Method

Under the first method, the banks should first calculate the Working Capital Gap (WCG), as given by,

$$WCG = TCA - OCL$$

Where,

WCG = Working Capital Gap;

TCA = Total Current Assets arrived at by

$$TCA = CCA + OCA,$$

Where,

$$CCA = RM + WIP + FG + Sp + R,$$

Each symbol means,

RM = Raw Materials + Consumable stores,

WIP = Work-In Progress/Process,

FG = Finished Goods Stock,

Sp = Spare Parts Kept In Inventory,

R = Book Debts of Receivables,

OCA = Other Current Assets, Such as Cash, Advance, etc.

OCL = Other Current Liabilities, Computed by

$$OCL = TCL - BB,$$

Where,

TCL = Total Current Liabilities,
arrived at by $TL - LTL$,

Where,

TL = Total Liabilities, and

What is the meaning of these abbreviations? Do you serve any conclusion? This is all wrong! The correct formula is given below. No formula is correct. No need to arrive at.

LTL = Long Term Liabilities .

BB = Bank Borrowings

After calculating the WCG, the banks should calculate the permissible bank finance by ,

$$PBF = 0.75 (CCA + OCA - OCL)$$

Where,

PBF = Permissible Bank Finance and the other
limits of credit

CCA = Chargable Current Assets and,

OCL = Other Current Liabilities

Thus, under the first method, the borrower is supposed to finance 25 per cent of the WCG out of long term funds, called Matching Contribution (MC). Banks are expected to provide the balance of 75 per cent in different forms as per the needs of the borrowing firm.

SECOND METHOD

Under the Second Method, borrowers should provide 25 per cent of the total current assets (TCA) as matching contribution (MC) and from the 'remainder' so left, other current liabilities (OCL) should be deducted.

The balance would be the maximum permissible bank (PBF), as given by,

$$PBF = 0.75 (CCA + OCA) - COL,$$

Thus, under the second method the matching contribution is higher than in case of the first method.

In the beginning the borrowers, who had weak financial

position with credit limits of Rs. 10 lacs or more from the banking system, were required to be covered as early as possible, not exceeding the period of one year. The aim was to ensure that, the borrowers move from the first to the second method as early as possible, and those who are already in the second Category, not increase their dependence on bank borrowings.

The rationale behind these methods of lending is that there must be a favourable relationship between current assets and current liabilities and that the borrower's contribution (Net Working Capital) for supporting the current assets must increase in due course, so that over a period of time the borrower's dependence on bank finance may come down.

At the time when the NBLS was introduced, it was felt that some time was needed by the borrowers to adjust themselves to the discipline of the new approach. The banks were supposed to work out the existing customers and any excess of the finance was to be converted into Working Capital Term Loan (WCTL), which was to be paid by the borrowers in due course, depending upon their cash generating capacity, ability to raise additional equity, etc. It was felt that need for additional credit will arise with an increase in the level of production. For that, the borrower should bring a matching contribution required under the relevant method of lending. In case of excess borrowing, representing the excess of inventory and receivables, credit facilities should not be given until the current asset levels are brought down to the required

levels.

Follow-up System

A comprehensive information system for proper financial follow-up of the bank credit is an integral part of the NBLS, mainly to ensure the safety of bank credit, and its proper end-use.

The Information System

From the angle of submission of periodical statements, borrowers are grouped under the following categories. (17)

- (1) Borrowers enjoying a working Capital limit of Rs. 10 lacs and more.
- (2) Big borrowers who enjoy a working capital limit of Rs. 1 crore or more at the beginning of the NBLS.

Both the categories of borrowers are required to submit the following three statements (18) :

- (1) Past and projected balance sheets and projected peak-level balance sheet (once a year)
- (2) Past, present and projected operating statements (once a year), and
- (3) Stock-statements in revised forms (once every month)

In addition to these, borrowers listed in the second category are required to submit the following quarterly statements.

- (1) Statements of current assets and liabilities giving actuals of past quarter and projected for the current.
- (2) Funds Flow Statement, giving actuals for the preceding quarter and projected for the current one;
- (3) Operating statement on quarterly basis, giving actuals for the past quarter and projected for the current; and
- (4) Half-yearly pro-forma Balance Sheet and profit & Loss A/c, within two months.

Interpretation of Various Statements

The information system had been so designed that it is being used in three ways to evaluate the operations of the borrower. Firstly, the past performance is evaluated to assess the financial position and viability of the borrower. Secondly, projections are evaluated to check if the planned future operations were acceptable to the banker; and thirdly, the actual achievements could be compared with the plans to identify the variances of up to 10 per cent of the estimates which are permitted. But variances beyond 10 per cent are enquired into by the banker.

The other things that are being seen in the stock statements as per the guidelines are that the statement should show the entire stock of CCA belonging to the business, including

stocks which might not have been pledged or hypothecated to the bank. Stocks shown in the statement are valued consistently on the same basis on which they are valued for balance sheet purpose. The banker is permitted to charge 2 per cent penal rate of interest on excess borrowings on account of excess holding of CCA, if it is felt that the party is not cooperating in bringing down the excess stock in accordance with the agreed programme.

(2) Quarterly funds flow statements

Quarterly funds flow statements show the total sources and uses of funds for a given quarter. If during a particular quarter the sources side exceeds the uses side, the unit will be surplus to that extent and the bank borrowings must come down accordingly. On the contrary, if sources side falls short of the uses side, the bank borrowings will go to the extent of this net deficit by the end of the quarter (20). Thus, quarterly funds flow statement is meant for assessing the permissible quarterly levels of drawings.

(3) Quarterly Statement of CA/CL

This statement which is a brief report of the current assets and liabilities at the end of the past quarter is also to be submitted, in the beginning of each quarter. Generally, three points are being checked carefully from this statement :

- (a) What is the net working capital (CA-CL) of the unit, as at the end of the end of the past quarter and how does this compare with the NWC projected

for the current quarter? If the projection shows any deterioration in the NWC, it should be examined.

(b) At the end of a quarter, the actual statement of CA/CL should be compared with the projected one submitted in the beginning of the quarter. Any significant variance should be noted and investigated.

(c) It should be ensured that the current assets shown in the projected statements (1b) are within the permitted levels. Similarly, the current assets at the end of the quarter should tally with the stock statement of that month, besides being within the permitted levels.

(4) Quarterly operating statements

Big borrowers, where (working capital limit is of Rs. 1 crore and more) are required to submit a quarterly operating statement - both actuals for the past quarter and projected for the current quarter. This is one of the most dependable sources of ascertaining the continued viability of the borrowing unit.

Operating statement provides data on the following :

(1) Sales

(2) Cost of production

- (3) Cost of sales
- (4) Gross profit
- (5) Operating profit

The banker is expected to study these figures and examine the statement from the following angles :

- us 5 mg
in procedure!*
- (1) How projections for the next quarter, with references to sales, cost of production, cost of sales, gross profit, operating profit margin ratio, turnover ratio and return on investment, etc., compare with that of the previous quarter of the same quarter of the last year. It should also be seen that the quarterly statements are consistent with the annual projected, operating statement and the proposed business plan. Another important point is to ascertain whether projections are in conformity with the past or is there any sharp break- upward or downward ? If the projected figures are very different from the comparable ratios and figures of the past, the reasons must be ascertained.

- (2) On receipt of the actual quarterly operating statement the banker is expected to look for any significance difference(s) between the projected and the actual figures. If such a comparison is unfavorable, preventive action is taken by the banker.
- (3) Quarterly Operating Statement, both projected and actual, is the basis of operating (i) Quarterly funds flow statement, and (ii) the quarterly

statement of CA/CL. The banker must examine the consistency of these three statements and suggest corrective actions wherever needed.

The main features of the New Bank Lending System, introduced in 1975, have got slightly modified, on the recommendations of the Chore Committee, which was appointed by the RBI to review the system of cash credit. Also, the inventory norms in respect of certain industries have been revised by the RBI during the period of this study.

4. The following table shows the interest rate schedule for advances to industries, effective from 10th oct: 1988.

INTEREST RATE SCHEDULE FOR ADVANCES TO INDUSTRIES WITH EFFECT FROM 10th OCT: 1988

INTEREST RATE SCHEDULE FOR ADVANCE TO INDUSTRIES WITH EFFECT FROM 10TH OCTOBER 1988			
Category of Advance	Rate of interest percent per annum	(i) Other areas with limits exceeding Rs. 25 lakhs (as permitted by IDBI)	14.0
I. Small Scale Industries			
1) Term loan for units in		(2) Short term advances with limits.	
1) Backward areas	12.5	(i) Upto and inclusive of Rs. 2 lakhs	12.5-14.0
others	13.5	(ii) Over Rs. 2 lakhs and up to Rs. 25 lakhs	14.0-15.5
1) Other areas with limits upto Rs. 25 lakhs	13.5	(iii) Over Rs. 25 lakhs	16.0 (minimum)

II. Medium & large scale industries

1. All term loans		15.0	(minimum with effect from 9th October 1988)	11. Pre shipment credit	
2. All short term advances		16.0	(minimum)	(i) Upto 180 days	7.5
				(ii) Above 180 days and upto 270 days with RBI approval	9.5
				12. Post shipment credit	8.65

*Why has this
newly
introduced
scheme?
What purpose
does it serve
here?*

	(minimum)	:		
		:	12. Post shipment credit	8.65
3. Advances against bills		:		
discounted		:	13. Export credit not otherwise	
i) If bills drawn under		:	classified	15.50
New Bill Market scheme	15.5	:	-----	
ii) Others	16.0	:	Source: RBI circulars.	
	(minimum)	:		

SOME RECENT DEVELOPMENTS

Timely Sanctions of working capital limits

- (i) Decentralization of credit decision of branch level.
- (ii) Issue of acknowledgment for loan applications received.
- (iii) Discussions with the applications, if necessary, on a definite date.
- (iv) Disposal of application within 8-9 weeks from the date of receipt of application.
- (v) Maintenance of proper records, review of disposal of application at regional level and review of long pending applications on a quarterly basis at the board level.

Adequacy of working capital sanctions by banks

- (i) Sanctions of full need based and capacity related limits at the time of commencement.
- (ii) Sanction with a contingency provision of 10 per cent to take care of unforeseen circumstances.
- (iii) Flexible and realistic permission for operation of limits at the branch level.
- (iv) Allowing automatic increase in drawal related to increase in the level of operations.

- (v) Disposal of requests for increase within six weeks.
- (vi) Rejection of results for fresh/increased limits and reduction in limits to be reported to next higher authority for concurrence.

Financing of marketing expenses of SSI units

- (i) While appraising new SSI projects marketing expenses should be taken into account.
- (ii) Normal marketing expenses should be included in the cost of finished goods/value of receivables and taken into account while arriving at working capital requirements.

Periodical reports to the boards of banks with respect to credit assistance to SSI sector

- (i) A critical review of statewise, industrywise applications received disposed off and pending by the boards of banks on a half yearly basis, should be done.
- (ii) Zonal/regional authorities should be entrusted with the responsibility of compliance with the guidelines.
- (iii) Serious view and appropriate action should be taken for non observance of guidelines/instructions by field level functionaries.
- (iv) The RBI nominee director should monitor the progress.

Coordination between banks and SFCs

- (i) Banks should simultaneously/jointly appraise projects of accept SFCs appraisal.
- (ii) Working capital assistance should be sanctioned four months

before an unit goes on stream.

(iii) Monitoring system devised should be incorporated in annual action plan of banks.

(iv) Periodical joint meetings for review of cases should be held.

(v) Cases where SFC assisted units are not able to get bank finance should be reviewed at state level inter institutional committee meeting (SLIC).

Common loan application forms

Banks, SFCs, SIDC should use the common loan application forms for SSI borrowers categorized according to total advance/assistance.

(i) Up to Rs. 50,000 (including composite loans).

(ii) Above Rs. 50,000 and upto Rs. 2 Lakhs.

(iii) Above Rs. 10 Lakhs.

Changes in guarantee scheme operated by DICGC

The extent of guarantee cover with new monitoring ceiling in respect to SSI units effective from 1st April 1989 is:

Units/Category

Guarantee cover

- | | |
|--|---|
| (i) Units in backward areas | 60 per cent if the amount of default of Rs. 20 lakhs, whichever is lower. |
| (ii) Units in other areas with aggregate credit facilities per borrower not exceeding Rs. 2 lakhs. | 60 per cent of the amount default. |
| (iii) Units in other areas with aggregate credit facilities exceeding Rs. 2 lakhs. | 50 per cent of the amount of default of Rs. 20 lakhs. Whichever is lower. |

The maximum guarantee cover available is Rs. 10 lakhs each for term loan and working capital facilities.

The procedure for collection of guarantee fee is simplified and payable at the rate of 1.5 % per annum with effect from 1st April 1989.

In case of advances where banks charge interest of 16 per cent or more banks will have to absorb the guarantee fees. In all other cases banks should ensure that the lending rate as stipulated together with guarantee fee irrespective of whether it is levied separately or not does not exceed 16 per cent.

RBI guidelines to banks in IDBI's single window scheme (SWS) for financing of fixed assets and working capital to tiny & SSI units.

As per the IDBI's single window scheme, SFSa/SIDCs have been permitted to assist tiny/SSI units by providing working capital loans upto Rs. 2.5 lakhs along with term loans for units with project cost up to Rs. 5 lakhs. As per the RBI guidelines banks can extend fund based and non-fund based facilities to such units in consultation with and with the consent of SFC's/SIDCs.

National equity fund scheme of IDBI

Launched jointly by the Government of India and the IDBI in 1987-88, the scheme is aimed at providing equity type support for tiny and SSI units engaged in manufacturing activity with project cost upto Rs. 5 lakhs located at centers with

population not exceeding 5 lakhs. Assistance under the scheme is available upto a maximum of Rs. 75,000 per project at normal service charge of 1 per cent per annum and administrated through all the 28 public sector banks.

GOI/IDBI/IBA/RBI periodically review the progress of the scheme and exhort banks to make earnest efforts to ensure that the limits allocated to banks by the IDBI are fully utilised.

RBI's modified definition of sick units

A small scale unit should be considered as ~~sick~~ if it has at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years. The new definition is effective from June 1989.

Rehabilitation of sick units

- (i) Expediteous/time bound completion of viability study of all classified sick units.
- (ii) Periodical review of progress by the boards of banks.
- (iii) Periodical reporting to RBI - RPCD.

Delays in settlements of dues of small scale industrial units by large scale borrowers

In order to ensure that the large scale borrowers do not exploit the small scale units by delaying payment to them, the Reserve Bank of India has advised banks that in proposals submitted to the RBI under CMA, banks should specifically

indicate whether the large scale borrowers have adhered to minimum level of credit sales through drawee bills and credit purchases through bills acceptances and if not, the steps taken towards compliances.

Ownership of units

The RBI advised banks in February 1989 that where aggregate investment in plant and machinery of related units under the same ownership/management exceeds the prescribed limit, they should be taken out the purview of the definition of SSI category and they will not be eligible to be classified as priority sector advances.

Women entrepreneur's enterprises

The RBI advised banks that the definitions of some entrepreneurs' enterprises adopted by banks for extend financial assistance to women entrepreneurs' is:

"An enterprise owned and administered by a woman entrepreneur, having a minimum interest of 51 per cent of the share capital and giving at least 50 per cent of employment generated in the enterprise to women"

In the case of firms and joint ventures of professionals/self employed persons, the benefits of concessional rates of interest prescribed in the RBI directive for professional and self employed women should be given only if the firm/joint venture satisfies the above definition.

Factoring services

The Kalyanasundaram Committee of the RBI has recommended the

introduction of factoring services in India. The RBI has accepted the recommendations. ~~Modilities~~ are being worked out for setting up various regional/national level organisations. Factoring services can alleviate the difficulties experienced by SSI units in collecting payments for supplies made by them to various purchasers belonging to both, public and private sector.

Section III.2 Analysis of Industrial Advances

Industries ~~needs~~ huge investment for establishment. In the modern world banks are one of the financial institutions providing financial assistance to industry. However, ~~Banks~~ have advanced substantial amount of funds to industrial sector as depicted in the table III.2 below:

The gross bank credit was Rs.85,678 crores in 1989 as compared to Rs.10015 crores in 1975, while industrial advances accounted for Rs. 45,285 crores in the year 1989. The percentage of industrial advances to total gross advances has decreased from 63 per cent in 1970 to 53 per cent in 1989. However it is clearly evident that industrial advances after 1986 show consistent improvement although marginally in terms of percentage of industrial advances to gross bank credit.

The table III.3 below shows the distribution of bank credit to industry according to occupation which has been taken up for growth analysis.

TABLE III.2

Industrial Finance by Scheduled Commercial Banks

(Rs. in Crores)

March end	Industry	Gross Bank Credit	% Share of Industrial Advances
1970	2510	4108	63.53
1975	5469	10015	54.6
1980	10904	21235	51.37
1985	22551	47956	47.02
1986	26238	55213	47.52
1987	31093	62554	49.71
1988	36399	70294	51.65
1989	45285	85678	52.85

Why has this
come down?
Explain reasons
of this

Source: Statistical Tables Relating to Banks in India- RBI
(various issues) and RBI Annual Report (various
issues)

Table III.3

Distribution of Scheduled Commercial Bank's Credit * to Industry According to Occupation

(Amount in crores of Rupees)

I N D U S T R Y	December 1975			December 1980			December 1985			December 1986		
	No. of Accounts	Credit limit (Rs. in crores)	Amount out -standing (Rs. in crores)	No. of Accounts	Credit limit (Rs. in crores)	Amount out -standing (Rs. in crores)	No. of Accounts	Credit limit (Rs. in crores)	Amount out -standing (Rs. in crores)	No. of Accounts	Credit limit (Rs. in crores)	Amount out -standing (Rs. in crores)
mining and Quarrying	1985	188.34	131.65	3987	226.79	191.2	6579	425.47	306.3	6292	509.44	420.09
Food Manufacturing	12289	690.99	271.56	37993	1736.81	954.75	42074	2967.01	1927.95	44429	3074.28	2233.98
Processing												
Coffee and Tobacco	2379	150.83	82.18	4024	367.33	180.07	4265	450.49	314.84	4599	535.74	419.58
Textile	31457	1618.71	1056.38	54963	2943.41	1983.05	55940	4422.67	3487.71	59581	5277.96	4235
Paper, Paper	10103	255.03	178.30	20952	550.28	416.62	23901	1017	825.94	25565	1209.28	1012.56
Products & Printing												
Leather & Leather Products	2691	91.29	70.83	5117	234.14	168.9	6086	425.58	335.58	6411	545.94	449.57
Rubber & Rubber Products	3330	145.28	104.22	6458	319.61	244.71	7608	571.31	411.39	8094	580.29	479.27
Chemical &	20827	932.74	589.92	43149	2175.77	1410.1	49913	3525.74	2557.98	51801	4310.29	3356.82
Chemical Products												
Manufacture of	964	209.47	109.24	1426	467.69	544.83	1886	429.45	256.8	2012	311.31	191.27
Basic Minerals												
Aluminium	418	76.49	53.83	2982	204.85	124.92	4821	460.35	342.08	5310	576.67	503.64
Basic Metal	23462	1070.21	755.25	45392	1961.95	1324.35	50816	3189.84	2537.02	54409	3358.66	2798.92
Metal Products												
Engineering	27082	1867.96	1230.67	54149	3454.38	2388.93	61503	5782.47	4255	64224	6524.8	5008.63
Trucks, Vehicle Parts &	8510	432.50	311.12	17991	854.69	550.14	21471	1387.49	990.69	22413	1579.25	1253
Transport Equipment												
Electricity -	1650	174.38	106.23	702	291.37	125.22	1724	532.7	335.64	1854	550.04	372.41
Generation												
Transmission &												
Distribution												
Construction	5477	90.08	70.06	12638	229.61	180.12	16467	591.28	456.66	17194	648.09	545.75
Others	46376	6961.07	615.87	52862	917	643.09	70216	2282.13	1790.57	75385	2657.39	2132.26
Total Bank Credit	605646	14469.19	9029.8	1328278	29780.48	20220.9	1548625	5305.6	40992.1	1710429	57884.9	46286.6
Total Industrial	499000	8955.37	5737.31	160785	16975.68	11431	424270	28451.9	21132.1	449573	32249.3	25412.7
Advances												
Of which advances to	148759	1717.67	1137.2	273090	3579.54	2738.33	296435	7002.87	5441.17	299783	7558.99	6097
ISI												

Note : * Relating to accounts with credit limit over Rs. 25,000/-

Source : Banking Statistics - Basic Statistical Returns - RBI (various issues).

The table III.3 shows a declining trend for the total industrial advances outstanding. Expressed as a percentage of total bank credit was 63.50 percent, 56.50 percent and 55 percent for 1975, 1980 and 1986 years respectively. Engineering, basic metal and metal products and textile industries appear as major borrowers. In other words, these industries occupy major chunk of industrial advances. In total bank credit small scale industries account for one fourth.

Scheduled Commercial banks have landed large amount of funds to industry. In the table III.4 given below bank loans and advances by scheduled commercial banks according to different sizes of credit limit and their classification is presented.

Table III.4
Classification of Industrial Loans and Advances of Scheduled commercial Banks According to
Different Sizes of Credit Limit

(Amount in crores of Rupees)

Industry group	Dec. End	Up to 1 lakh	1 lakh to 5 lakhs	5 lakhs to 10 lakhs	10 lakhs to 25 lakhs	25 lakhs to 50 lakhs	50 lakhs to 1 crore	1 crore to 10 crores	10 crores & above	composite limits unclassified	Total
Mining and Quarrying	1980	989.96	16.45	9.73	21.45	18.6	31.15	50.42	30.06	3.38	1171.2
	1986	18.92	38.09	16.57	30.47	33.19	41.61	137.14	104.09	-	420.09
Food manufacturing & Processing	1980	79.06	168.39	108.79	165.98	121.56	117.27	189.23	8.75	1.63	954.75
	1986	93.79	310.07	222.62	319.26	274.77	305.95	612.12	95.41	-	2293.98
Beverage and Tobacco	1980	8.54	20.91	14.05	35.74	24.11	21	50.92	4.62	0.18	180.07
	1986	10.4	27.76	21.5	44.43	55.84	61.09	185.29	13.28	-	419.58
Textile	1980	119.51	220.89	146.47	262.37	287.8	308.7	603.28	29.83	4.2	1983.05
	1986	138.54	375.32	247.14	449.47	488.94	609.98	1722.13	202.47	-	4235
Paper, Paper Products & Printing	1980	49.35	74.19	37.9	55.07	45.79	45.72	106.38	1.09	1.13	416.32
	1986	70.72	153.77	87.01	127.35	123.14	129.95	322	-	-	1012.56
Leather & Leather Products	1980	10.74	25.73	19.57	32.66	23.75	20.34	35.12	-	9.9	168.9
	1986	13.95	50.97	36.93	65.4	63.1	61.5	139.1	18.73	-	449.57
Rubber & Rubber Products	1980	17.36	27.08	15.65	21.37	25.81	46.3	87.12	3.88	0.14	244.71
	1986	19.84	56.06	31.86	42.71	47.55	63.23	206.09	1.94	-	479.27
Chemical & Chemical Products	1980	107.48	204.37	111.4	173.49	158.96	175.64	425.67	55.48	1.62	1410.1
	1986	117.81	385.23	242.1	362.56	367.57	429.11	1231.3	225.15	-	3356.82
Manufacture of Basic Minerals	1980	2.9	5.3	1.34	8.24	7.45	18.41	145.71	353.64	0.14	544.83
	1986	4.87	12.93	7.71	17.67	13.98	19.71	81.03	37.78	-	191.27
Cement	1980	7.64	12.55	4.63	9.41	12.44	17.46	60.06	-	0.71	124.92
	1986	17.1	39.51	19.15	78.19	54.52	74.81	224.27	-	-	503.64
Basic Metal and Metal Products	1980	111.05	202.01	113.37	184.66	157.19	156.77	225.32	172.15	1.73	1724.75
	1986	136.64	386.95	226.31	350.47	357.88	332.7	759.61	198.16	-	2792.92
Engineering	1980	131.57	232.35	136.25	233.73	252.09	322.03	774.68	302.62	3.61	2389.93
	1986	154.93	429.42	252.45	443.77	481.93	618.45	1947.38	680.32	-	5008.63
Vehicles, vehicle Parts and Transport Equipment	1980	35.37	57.15	31.1	55.05	57.95	56.99	234.74	21.66	0.17	550.14
	1986	57.29	134.01	67.77	112.05	113.24	120.64	491.49	156.51	-	1253
Electricity-Generation	1980	1.12	2.64	4.45	11.75	12.48	19.42	66.01	7.1	0.25	125.22
Transmission & Distribution	1986	7.27	6.37	3.52	38.46	56.26	25.34	150.66	83.47	-	272.41
Construction	1980	34.93	41.57	20.57	26.4	15.46	15.81	25.12	-	0.26	180.12
	1986	50.16	113.77	57.41	70.98	67.63	60.7	120.9	12.19	-	545.75
Others	1980	261.21	146.41	11.7	56.22	80.74	59.82	54.68	0.78	0.52	767.18
	1986	1281.23	395.79	184.7	277.55	275.41	276.17	476.5	18	-	3184.73
Total	1980	1963.79	1457.99	843.68	1392.68	1302.18	1432.43	3134.96	991.66	29.63	12534.79
	1986	2185.46	2916.11	1724.68	2826.98	2866.95	3230.94	8807.01	1847.5	-	26525.22

The above table III.4 shows loans and advances Scheduled Commercial Banks by different size of credit limit to different industries. In 1980, among total advances, ~~loans~~ under one lakh and one to ten crores accounted for 16 per cent and 25 per cent reduced to 8 per cent while one to ten crores increased to 33 per cent.

The below table III.5 depicts outstanding credit of Scheduled Commercial Banks to industry lending to population group and branches between 1980 to 1986.

Table III.5

Outstanding Credit of Scheduled Commercial Banks to Industry
(According to Population Group of Branches)

	Dec.1980	Dec.1981	Dec.1982	Dec.1983	Dec.1984	Dec.1985	Dec.1986
RURAL							
No. of Accounts	190486	257710	319982	715326	792502	1038864	1316032
Credit Limit (Rs. in Lakhs)	77043	94079	101688	143583	137042	148930	165336
Amount Outstanding (Rs. in lakhs)	51405	61158	75398	98174	101282	115427	136772
SEMI URBAN							
No. of Accounts	878782	207818	218878	178979	288179	249908	704979
Credit Limit (Rs. in Lakhs)	210134	241511	286907	315576	311729	330990	377707
Amount Outstanding (Rs. in lakhs)	146858	170950	205223	236709	229037	252471	298139
URBAN							
No. of Accounts	206040	229946	241509	294152	355485	417723	481087
Credit Limit (Rs. in Lakhs)	344633	404264	455991	529079	620075	702469	787288
Amount Outstanding (Rs. in lakhs)	249463	303305	341367	388244	465835	540580	629370
METROPOLITAN							
No. of Accounts	167095	171380	174567	181577	211967	227193	242957
Credit Limit (Rs. in Lakhs)	1080543	1295658	1462990	1501893	1587482	1753986	2016735
Amount Outstanding (Rs. in lakhs)	707783	969451	1015562	1027018	1114187	1282627	1582241
TOTAL							
No. of Accounts	837313	966284	1079629	1667030	1922022	2322382	2804652
Credit Limit (Rs. in Lakhs)	1712357	2035512	2307372	2490131	2648526	2976174	334706
Amount Outstanding (Rs. in lakhs)	1155509	1404775	1637550	1750745	1910336	2191105	2646522

Source : Banking Statistics : Basic Statistical Returns, RBI - (various issues).

Table III.5

The above III.5 table show credit outstanding per account in 1980 was 1.38 lakhs and reduced to 0.94 lakhs by 1986. However, in rural areas per account credit outstanding reduced from 0.27 lakhs to 10 thousand but in the remaining areas on the other hand it shows improvement. The much improvement visible in metropolitan areas i.e. 4.24 lakhs per account in 1980 to 6.51 lakhs per account in 1986.

Table III.6
Distribution of Scheduled Commercial Bank's Credit * to Industry According to Occupation

(Amount in crores of Rupees)

Union territories	December 1975			December 1980			December 1985			December 1986		
	No. of Accounts	Credit limit	Amount out	No. of Accounts	Credit limit	Amount out	No. of Accounts	Credit limit	Amount out	No. of Accounts	Credit limit	Amount out
	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)	(Rs. in crores)
India	13267	233.41	152.96	24185	479.8	331.93	43003	790.75	625.66	52082	880.06	718.4
Andhra Pradesh	1394	6.4	4.21	5523	28.27	23.51	21295	94.3	79.62	26612	118.73	99.2
Assam	5680	35.85	23.93	9856	37.58	32.01	30942	96.44	84.96	35036	121.73	107.1
Bihar	28116	286.54	169.42	36100	540.25	349.47	69190	993.94	747.4	85644	1184.65	928.0
Chhattisgarh	24063	163.06	98.34	26234	360.35	257.35	104795	688.07	513.63	124798	712.97	569.2
Goa	2256	14.43	10.89	2154	53.88	39.51	3322	136.85	105.99	3775	185.14	145.7
Gujarat	19305	434.42	281.12	34041	1068.87	728.25	39227	2090.74	1637.43	41344	2014.52	1659.2
Haryana	6774	47.97	34.18	9234	155.49	104.66	3361	482.88	373.09	43762	380.96	284.6
Himachal Pradesh	493	0.82	0.64	892	1.09	1.2	2478	5.61	5.14	3972	7.72	7.5
Jammu & Kashmir	344	2.19	1.19	755	2.53	1.78	3547	6.29	4.69	2704	19.02	15.6
Karnataka	97	5.73	0.54	608	2.58	1.81	1801	18.05	12.32	1811	20.39	15.9
Kerala	802	1.09	0.78	2324	3.43	2.87	11827	17.9	15.58	20795	23.01	18.1
Madhya Pradesh	44	0.8	0.69	87	2.85	1.12	413	8.25	6.33	600	14.31	11.6
Maharashtra	6	0.03	0.02	45	0.96	1.27	1178	2.2	1.62	1957	10.37	7.7
Manipur	19655	419.4	343.54	30287	519.71	344.85	191661	640.72	508.52	241220	639.67	541.8
Mizoram	8532	71.79	53.71	29044	155.69	90.52	121196	287.33	267.13	148310	406.64	359.9
Nagaland	40958	1228.84	870.13	58954	1934.42	1290.55	239587	3019.66	2283.64	337805	3740.33	3045.2
Nicobar Isl.	180	0.18	0.14	85	0.38	0.28	330	4	3.87	389	3.55	2.8
Odisha	22361	243.32	114.1	40265	372.06	263.73	160290	912.13	684.04	196364	1041.85	836.6
Punjab	61789	692.29	425.98	86582	1084.09	691.49	287479	1921.16	1457.41	301919	1961.1	1590.7
Rajasthan	52421	724.09	469.19	56992	1531.29	975.78	119090	2165.43	1591.38	130335	2508.94	1993.9
Sikkim	115471	2586.93	1615.08	67847	4766.04	3161.22	155548	741.31	5347.65	169597	8369.38	6338.5
Tamil Nadu	99	0.53	0.42	176	2.35	1.69	792	6.41	5.09	945	7.45	5.8
Telangana	4235	82.27	53.05	2882	90.94	82.14	5111	145.63	120.09	5737	169.83	147.6
Uttar Pradesh	46312	428.59	246.9	69530	828.81	531.2	223849	1559.45	1135.04	258936	1997.54	1587.5
West Bengal	81002	597.49	424.37	60586	929.81	704.53	152811	2005.28	1502.21	190762	2302.31	1828.
Andaman & Nicobar	43570	268.67	162.81	50240	564.49	385.9	108948	1016.19	741.82	140144	1052.08	832.2
Chandigarh	71312	985.63	647.15	102853	1573.47	1135.91	186746	2778.9	2107.66	231918	3528.58	2728.5
Daman	17	0.003	3.003	1	0.001	0.001	11	0.7	0.11	29	0.72	0.1
Diu	1034	15.43	10.28	2982	23.56	18.26	2073	32.72	23.61	4839	46.98	38.
Total	671429	9578.91	621571	837313	17123.5	11554.8	2292382	29361.7	21911.0	2804652	33470.6	26465.

The interest rate structure was fixed for all types of loans and advances to industries as seen from the above table III.6 . The interest rate for term loan to Small Scale Units ranges from 12.5 percent Per annum to 14.0 per cent Per annum; while incase of Medium and large scale industries range from 15.0 percent to 16.0 percent Per annum.

On the other hand incase of export finance the interest rate varies from 7.5 percent to 15.50 percent for the specified period of time (see table).

The table III.7 given below shows the classification of industrial loans and advances of scheduled Commercial bank's according to interest range.

Table III.7

Classification of Industrial Loans and Advances of Scheduled Commercial Banks According to Interest Range (Amount Outstanding)

(Amount in lakhs of Rupees)

Industry	INTEREST RATE RANGE										Total
	Dec. End	and	8% to 10%	10% to 12%	12% to 14%	14% to 15%	15% to 16%	16% to 17%	17% to 18%	18% and	
Mining and Quarrying	1980	88	238	3564	1435	1151	909	924	5254	4295	17858
Food manufacturing & Processing	1986	210	2461	8474	5844	5967	917	1131	17335	682	39422
Beverage and Tobacco	1980	747	1477	16598	99308	8542	4020	10035	6989	24100	82576
Textile	1986	677	6813	13861	41846	13608	9344	25407	88185	3094	204635
Paper, Paper Products & Printing.	1980	48	117	1993	1629	1736	945	3550	901	5221	15745
Leather & Leather Products	1986	24	1482	3232	3559	3540	976	5520	16399	1800	36532
Rubber	1980	815	3750	21786	20656	11942	8446	13602	11463	52227	144687
Rubber Products	1986	750	9119	15902	46985	23844	19078	54243	161430	7315	338667
Chemical & Chemical Products	1980	186	979	3848	10094	3214	2255	3176	1936	6883	35571
Manufacture of Basic Minerals	1986	122	650	4349	19191	13863	6432	10352	30780	2201	87940
Cement	1980	32	222	5386	1159	967	627	789	1141	1721	11644
Basic Metal and Metal Products	1986	27	7129	5045	4414	1742	1264	2186	8796	480	30683
Engineering	1980	253	104	1139	6252	2380	1110	2194	990	7677	22099
Vehicles, Vehicle Parts and Transport Equipment	1986	41	402	1114	10474	5062	2969	8198	12518	591	41769
Electricity-Generation	1980	686	1298	14699	24491	9775	9718	13463	13177	31947	120354
Transmission & Distribution	1986	466	6277	4056	43625	22331	17425	62355	128750	3461	288744
Construction	1980	51	375	716	1456	757	600	1126	46833	1799	53272
Others	1986	9	113	272	1078	1652	1068	1654	10245	39	16130
	1980	18	163	1333	2420	1790	261	1213	445	4146	11792
	1986	71	16	284	7075	1691	3456	6625	14696	291	49204
	1980	897	1670	9892	22759	9663	10979	12189	18850	26523	112788
	1986	472	2752	5015	39331	20861	19861	37813	105296	7968	238489
	1980	2109	6502	17774	22951	17567	11079	15682	78434	54704	182789
	1986	599	10770	11168	41977	18749	22294	84504	164166	6183	360740
	1980	855	948	3633	6258	2749	2612	3598	9291	15039	44983
	1986	203	1124	2545	12867	7587	5670	17163	44982	2614	94754
	1980	202	789	3079	3019	442	70	523523	832	2033	10989
	1986	42	10507	3872	4060	2651	966	2470	8097	196	32852
	1980	247	417	1524	2399	1941	950	2756	1099	1116	17248
	1986	530	917	1724	9011	5779	1892	3500	27966	1400	52218
	1980	106	1297	13037	13829	5266	3514	6243	2249	8551	53588
	1986	709	6886	12187	49176	15113	12835	2435	55032	2711	179214
Total	1980	7671	20262	120360	151627	7481	59255	91063	159884	254684	937983
	1986	4941	49118	90500	343473	179639	126437	347755	894213	40117	2091192

Note : Relating to accounts with credit limit over Rs. 25 000/-.

Source : Banking Statistics --- Basic Statistical Returns --- RBI (Variable Issues).

The scheduled commercial banks over the 80's advanced substantial amount of funds and the outstanding amount over the same period showed an increasing trend. However, outstanding credit by states from 1975 to 1980 is presented in the appendix.

Which Appendix?
There is no such Appendix

In 1975 the credit outstanding in Maharashtra, Tamil Nadu and Uttar Pradesh accounted for Rs. 1615 crores, Rs. 647 crores and Rs. 426 crores respectively. However, in 1986 the first position of Maharashtra has not changed with the credit outstanding of Rs. 6338 crores. The next position were shared by West Bengal, Tamil Nadu, Gujarat and Delhi with advances of Rs. 3045 crores, Rs. 2725 crores, Rs. 1994 crores and Rs. 1659 crores respectively. Thus, over a period of 11 years the distribution of advances of every states showed a significant shift.

Section III.3 Bank Lending and Industrial Sickness

Concept and Process of Sickness

There are a number of definitions for industrial sickness which are based on different norms, viz., liquidity, solvency, erosion of equity, cash losses, amount of irregularity in bank accounts, etc. However, the survival and continued ability of an industrial unit to serve the community is determined by its capacity to generate surplus on a continuing basis. Therefore, any unit which fails to generate internal surplus on a continuing basis and depends for its survival on frequent infusion of external funds can be called a sick unit. To have uniformity, the RBI has given the following definition which is being followed by the banking industry:

"A sick unit is that which has incurred cash loss for

the last year and, in the judgement of the bank is likely to continue incurring cash losses for the current year as well as in the following year and has imbalance in its financial structure so as to make the current ratio less than one and that there is a worsening trend in the ratio of total outside liabilities to the net worth".

the last year and, in the judgement of the bank is likely to continue incurring cash losses for the current year as well as in the following year and has imbalance in its financial structure so as to make the current ratio less than one and that there is a worsening trend in the ratio of total outside liabilities to the net worth".

The RBI has further clarified that sick units would invariably have deficits in their accounts which they are not in a position to adjust. These units will require a comprehensive rehabilitation programme and intensive care over a period. They should be distinguished from those units which merely indicate signs of incipient sickness calling for a close watch and remedial measures on the part of banks.

We would also like to mention here that term lending institutions have their own norms. They classify the units as sick when they notice the following symptoms :

1. Continuance of cash losses for a period of two years or continued erosion of net worth by 50 per cent,
2. Mounting arrears on account of statutory and other liabilities for, say, a period of one to two years.

PROCESS OF SICKNESS

Sickness is an organic process. The following exhibit depicts contains the process of how a healthy unit turns into a sick unit :

PROCESS OF SOUND UNIT BECOMING SICK

Closure of Unit	C	/-----\	/-----\	
	O	Extinction of Financial	ClimeX of	
	N	Viability	sickness	
Failure or collapse of Unit	T	/-----\	/-----\	
	I	/-----\	/-----\	
	N	Further loss of Financial	Chronic	
	U	Viability	sickness	
	I	/-----\	/-----\	
	N	/-----\	/-----\	
	G	Loss of Financial	Intensity of	C7
		Viability	sickness	----
			increases	
		/-----\	/-----\	
	C	Weakening of Financial	Incipient	C
	A	Viability	sickness	----
	S	/-----\	/-----\	
	U	/-----\	/-----\	
	A	Continued Deterioration in	Tending	
	L	the Performance of all 4	Towards	
		Functional areas	sickness	
		/-----\	/-----\	
	F	Deterioration in different		
	A	degrees in the performance		
	C	of all 4 functional areas		
	T	/-----\		
	O	/-----\		
	R	Deterioration in the		
	S	performance of one or more		
		functional areas		
		/-----\		
		Defects Mistakes Constraints		
		(Internal Causes) (External Causes)		
		-----	v	vv v
Financially Viable Unit				

Notes: (1) P refers to the stage where prevention of sickness is feasible. If prevention is undertaken then the unit will revert to the stage of financial viability.

(2) C refers to the stage where curative action is feasible and if it is undertaken, the financial

viability of the unit can be restored.

- (3) C7 implies that at this stage cure may not be feasible.

The stages of sickness defined in the exhibit may be understood as follows :

1. Unit Tending towards sickness

This is the stage when the performance in one of the areas of production, marketing, finance and personnel starts deteriorating in different degrees and assumes a continuing nature leading to weakening of financial viability.

2. Incipient Sickness

Incipient Sickness is a stage when unit has incurred cash losses, net working capital has become negative and net worth is very small or negligible.

3. Sickness

This is a stage when the continuance of cash loss results in negative net worth resulting in the extinction of financial viability. The unit is also likely to incur cash losses in years to come.

4. Chronic Sickness

This is a stage when the intensity of sickness varies with the quantum of cash losses incurred and the extent to which net working capital and net worth becomes ~~further~~ negative. Sickness becomes chronic if the potency of casual factors is not checked in time.

5. Complete Sickness

Finally in the absence of rehabilitation measures, sickness, will become terminal resulting in the winding up of the unit.

Concept and Process of Sickness

Extent and Magnitude of Sickness in India

There has been a rapid growth of industrialisation in this country during post independence period. It is rather ironical to note that simultaneously quite a good number of industrial units have fallen sick. The phenomenon of industrial sickness, both in "medium & large" and "small scale" industrial sectors has become increasingly common during the last few years and has been causing considerable concern to the Government, financial institutions & Banks. The common effects of such sickness are locking up of financial resources, wastage of capital assets, loss of production and decrease in employment.

Industry - wise spread of sick units and the bank credit involved is revealed from the tables given below:

Table. III.9

Industrial Sickness in India and bank credit involved

As at the end of	(Amount Rs. in Crores)							
	Small Scale Sick		Medium Scale Sick		Large Scale Sick		Total	
	No. of Units	Amt. out-standing	No. of Units	Amt. out-standing	No. of Units	Amt. out-standing	No. of Units	Amt. Out-standing
June 1980	22325	292.75	1026	219.17	389	1232.70	23740	1744.62
June 1981	22360 (+0.2)	321.52 (+9.8)	960 (-6.4)	137.16 (-37.4)	422 (+8.5)	1453.29 (+17.9)	23742 (+0.08)	1911.97 (+9.6)
June 1982	26973 (+20.6)	393.67 (+22.4)	1020 (+6.2)	176.14 (+28.4)	435 (+3.1)	1728.95 (+19.0)	284.39 (+19.7)	2298.76 (+20.2)
June 1983	64388 (+138.7)	656.52 (+59.1)	1211 (+18.7)	253.05 (+43.7)	463 (+6.4)	1913.10 (+10.6)	66062 (+132.4)	2792.67 (+21.5)
June 1984	81674 (+26.8)	788.30 (+25.8)	1477 (+18.7)	373.17 (+47.5)	513 (+10.8)	2112.44 (+10.4)	93597 (+26.5)	3277.91 (+17.2)
June 1985	97890 (+19.9)	954.65 (+22.1)	1181 (-17.8)	195.13 (-47.7)	597 (+16.4)	2655.39 (+25.7)	99668 (+19.2)	380.17 (+16.7)
June 1986	128687 (+31.5)	1184.22 (+24.0)	1270 (+4.9)	242.37 (+24.2)	689 (+15.4)	3239.64 (+22.0)	130606 (+31.0)	4665.27 (+22.6)
Average Annual Rate of Growth	39.6	27.0	3.9	9.8	10.1	17.6	32.1	17.9

Note : Large Scale sick units include those individually, enjoying bank credit limit of Rs. 1 crore and above from the banking system.

Figures in the brackets represent percentage of variations over previous year.

Source : Commerce, Weekly, April 2-8-1988. Vol. 156 No. 4011 p.7.

The tables are self explanatory and clearly indicate the extent and magnitude of the problems of industrial sickness in India and its adverse consequences on the further lending capacity and financial health of the banks. It is, therefore, necessary to ascertain the causes of sickness and take appropriate measures to arrest the trend of industrial sickness and rehabilitate the already sick units if their exit of closure is not essential on techno-economic-managerial and financial grounds.

CAUSES OF SICKNESS

The causes of sickness are many and often several factors work simultaneously to push the unit in the track of sickness, as follows :

(i) Internal Causes

- 1 Low capital base and inadequate financial resources to meet ~~liabilities~~.
- 2 Lack of project planning and market research.
- 3 Diversion of funds to their allied units.
- 4 Absence of manpower planning and over-staffing.
- 5 Inefficient working capital management and absence of costing.
- 6 Wrong selection of site and/or plant and machinery.
- 7 Improper finance-mix and under-utilisation of assets.
- 8 Lack of financial planning and budgeting.
- 9 Lack of expertise and technical knowhow.
- 10 Inadequate supply of inputs.

- 11 Inaccurate demand forecasting and adoption of unremunerative product-mix.

(ii) External Causes

- 1 Changes in Government policies with regard to import and purchase etc.
- 2 Changes in international market conditions.
- 3 Non-availability of skilled personnel in the area.
- 4 Restraint on lending by banks and financial institutions and poor investment climate.
- 5 Natural calamities like floods, cyclones, earthquakes etc.
- 6 Shortage of inputs like raw material, power, fuel etc., which are controllable by the Government.
- 7 Dependence on a few buyers and delay in payments by purchasers.
- 8 Restraints on diversification and expansion imposed by the Government.
- 9 Liberalised licensing for a single product resulting in excessive supply and unhealthy competition.
- 10 General labour unrest in the area and inter-union rivalries.
- 11 High turnover of labour and staff.

REVIVAL OF SICK INDUSTRY

It may be emphasised here that only those units, which have potential viability should be taken up for rehabilitation. If the management is of doubtful integrity or the project is not viable, there is no justification for banks to take up

rehabilitation as it would amount to wasting good money for recovery of bad money.

Taking a Nursing/Rehabilitation Decision

After identifying the units as sick, the banks are in dilemma as to whether they should rehabilitate it or initiate action for recovery of their dues. This is a hard decision as they are not sure whether they can recover the bad money, by investing more good money. But then, the decision cannot be delayed as it would make the task even more difficult. It is, therefore, essential that the decision is taken expeditiously.

Before taking a rehabilitation decision it is most important to make an in-depth study of the unit covering its past history, reasons for sickness, technical aspects like suitability and capacity of plant and machinery, availability of inputs and other infra-structural facilities. Economic aspects like break-even, ability to generate adequate profits to service its debts after rehabilitation, etc. marketing aspects-viz, market potential, position of competitors, position of substitutes, pending order position, terms of payments and assessment of managerial capabilities of the unit, etc. Such studies should preferably be undertaken by a team consisting of bank officials with a engineering and finance background and the branch manager. Where term lending institutions are involved, such studies should be undertaken jointly by banks and term lending institutions. These studies should be entrusted to outside consultancy organisations.

where banks do not have the required technical expertise,
These viability reports may generally lead to the following
three types of conclusions:

- (i) The unit is technically and economically viable and
can come up with an additional dose of financial
assistance.
- (ii) The unit is not viable under existing conditions
but it has potential viability and can come up if
some concessions and reliefs are extended along
with additional financial assistance.
- (iii) The unit has not been found viable and the
management does not have the ~~expertise~~ as well as
business integrity.

A bank can take a favourable decision with regard to
rehabilitation of those units which fall under the first two
categories.

A unit is considered potentially viable if it can service
its debts at a reasonable rate of interest which should be
concessional but not below the minimum lending rate or below
the cost of funds to the bank. The unit should be in a
position to pay its debts within a period of 8 to 10 years
and the management should be kept about revival of the unit.

The bank can also consider favourably the rehabilitation of a sick unit where the existing management, although weak, has no objection to induction of professional managers for running of the unit. It is, however, felt that no rehabilitation plan and revival effort can succeed if the existing management does not have business integrity and morality. In such situations, change of management is the only solution.

In those cases where the rehabilitation is to be undertaken on social considerations, the bank should see that other agencies and persons connected with the unit like promoters, creditors, labour/staff, etc, also make sacrifices and share the burden.

Various Aspects of Viability Reports

Finance Function

Finance is a key area and required to be critically examined. The main source of information is the balance sheet and profit and loss account published by the unit every year.

An analysis of the latest year's financial statements would show (a) if the unit has made enough profit (b) if its inventory is too high and (c) if it is giving too much of credit. It will also reveal the position of outside borrowings and the financial soundness. A study of financial Statements over a period, say last three years, may prove to

3rd Mth Q⁴

be more useful since it would tell us about the unit's performance over a greater period of time. It would help in predicting the unit's future from past trends with a fair degree of accuracy. This analysis can be more useful when the financial ratios are worked out and studied over a period along with the reasons of changes that took place. These ratios tell us broadly about the unit's liquidity, the management's stake in the business and its efficiency to run the unit well etc.

Some of the useful ratios which are classified under main categories namely, Liquidity, Leverage, Activity and Profitability Ratios are discussed below:

Ratio	Formula for calculation
(1) Liquidity Ratio :	
(a) Current Ratio	$= \frac{\text{Current Assets}}{\text{Current Liabilities.}}$
(b) Quick or acid test ratio	$= \frac{\text{Current Assets}-\text{Inventory}}{\text{Current Liabilities}}$
(2) Leverage Ratio :	
(c) Debt to total assets	$= \frac{\text{Total Debt} \checkmark}{\text{Total Assets}}$
(d) Fixed charge coverage	$= \frac{\text{Income available for meeting fixed charges}}{\text{Fixed charges}}$
(3) Activity Ratio	
(e) Inventory turnover	$= \frac{\text{Sales} \checkmark}{\text{Inventory}}$

- (f) Average collection period = $\frac{\text{Receivable}}{\text{Sales per day}}$
- (g) Fixed assets turnover = $\frac{\text{Sales}}{\text{Fixed assets}}$
- (h) Total assets turnover = $\frac{\text{Sales}}{\text{Total assets}}$
- (4) Profitability Ratio :
- (i) Profit margin on sale = $\frac{\text{Net Profit after taxes}}{\text{Sales}}$
- (j) Return on total assets = $\frac{\text{Net Profit after taxes}}{\text{Total assets}}$
- (k) Return on net worth = $\frac{\text{Net Profit after taxes}}{\text{Net worth}}$

A better financial appraisal can be made by tracing change in material cost, labour cost, manufacturing expenses; selling and distribution and other administrative expenses, when compared to the value of production and /or sales in percentage terms. A detailed analysis should be undertaken where adverse trends are noticed in the classification of major cost items.

However, the ratio analysis method for determining the health of a unit may not be satisfactory now and a new analytical technique, viz., ~~Multiple Discriminant Analysis~~ should be

A simple linear multiple discriminant model can be built for each type of industry. This model can be built for each type of Industry and can be presented as:

$$Z = a_1 x_1 + a_2 x_2 + a_3 x_3 + \dots + a_n x_n$$

Where Z is the simple composite indicator while

x_1, x_2, \dots, x_n are the financial ratios and a_1, a_2, \dots, a_n are the constant weights. The value of Z would determine the unit's health when compared to other units in the same field.

The study of financial statements and ratios work well in analysing a unit's strengths and weaknesses. However, for small firms break-even point and viable level of production should also be looked into.

Production Function

The study of the function may evolve the following areas:

1. Product specifications and its application.
2. Process of manufacture, machines used-their capacity and suitability.
3. Plant layout and availability of material handling facilities.
4. Plant maintenance schemes i.e. running and break-even system of maintenance.
5. Quality control covering stage and final inspection procedure and facilities available.
6. Production planning and inventory control methods.
7. System of setting of performance standards by adopting work study techniques.
8. Product Mix adopted by the unit.

Marketing Functions

Many units (particularly so in S.S.I.) get into difficulties not because they cannot produce goods of quality because they face problems in marketing these at reasonable price. For this function, the evaluator should look into following:

1. Unit's past sale achievements in terms of quantity and value.
2. Pattern of product-mix adopted and whether the trends are towards the more remunerative side or otherwise.
3. The share of market held by the unit and how family it is ~~holding~~ this
4. Customers' acceptability regarding the unit's products, i.e. good/just acceptable/not acceptable?
5. Is the market as a whole expanding or ~~contracting~~ and at what rate?
6. The position of the new substitutes for the product.
7. What competitive trends are ~~developing~~, i.e. competitions, technology and pricing etc.
8. The position of pending order and the rate with which the orders are being received.
9. The delivery period and reaction of the customers.
10. Channels of distribution adopted, i.e. stockists, retailers and/or original equipment manufacturers?

Personnel and Corporate Management

The effectiveness of the management is equally essential along with the viability of any industrial unit. Industrial business is an integration of functions which are bound together by an organisation and management. The management consists of functions like planning, organising and controlling all the Industrial activities namely production, purchase, inventory/store keeping, finance and personnel and marketing. The study should be made to assess the effectiveness of the group. The people managing the business. Also it is most important for a rehabilitation programme, that the management is honest, and of high business integrity and character.

Environment

The evaluator should examine the external environment influencing the industry as a whole. These may be related to changes in economic, social, political and legislative policies and/or international market conditions. These changes can influence any of the unit's functional areas like finance, production, marketing and personnel and management. Some of such factors are listed below:

1. Credit restraint measures adopted by financial institutions and unfavourable investment climate.
2. Government control on pricing and cost of basic inputs.
3. Import restrictions resulting in shortage of basic raw-materials. In addition, other inputs

like power, coal, fuel etc. may also be in short supply.

4. Charges in international marketing scene and lack of export incentives offered by the government.
5. Restraint on government bulk purchases.
6. Liberal licensing of projects relating to a particular industry which in turn may influence the market and selling rates.

In conclusion, it can be stated that a viability study cannot be considered as complete till it goes into detail of ~~the~~ all the functional areas as well as the external environments. The idea is to identify the strengths and weaknesses and the opportunities and threats under which the unit has to operate. A judicious consideration of all the above issues would ultimately help in making the rehabilitation decision.

The viability study should be made for all the functional areas and external environments to identify the areas and ~~exteranl~~ environments to identify the areas of strength weakness and the opportunities and threats under which the unit has to operate. ✓

Rehabilitation Plan

Once it is decided to rehabilitate the unit, ~~than~~ information on following lines be obtained and processed for preparing a rehabilitation plan:

1. Present position of the accounts and that of securities, i.e. their quality and valuation to

determine the exact deficit in the accounts.

2. Unit's latest financial position along with the audited balance sheets and profit and loss accounts for the last three years. If the latest financial position is not supported by audited statements, unaudited ones must be obtained and checked from the unit's books of accounts.
3. Data regarding requirement of need-based funds for rehabilitation. This should include funds ~~needed~~ for renovation, balancing of plant and machinery and for meeting additional working capital for smooth functioning.
4. The next requirement is of information relating to sources of funds. The sources include:
 - i) Capital contribution from the borrowers and friends.
 - ii) disposal of excessive stocks and assets;
 - iii) rapid collection of outstanding bills.
 - iv) internal generations;
 - v) enhancement and readjustment of limits and amendment of terms and conditions of a sanction like rate of interest, margin and repayment etc.
5. The expected generation based on achievable plant capacity and a suitable product -mix should be worked out. The items of cost and other input should be reasonable for arriving at the surplus generation. Thereafter funds flow for the next 5 years or so should be prepared.

It should be ensured that adequate provision is made for subsistence of the entrepreneurs. Any over optimism in fixing repayment programme which is not adherable in future, may again lead to mis-trust between the bank and the party and, in turn, failure of the rehabilitation programme.

After taking a decision to rehabilitate, the programme should be finalised quickly and the implementation should also be speedy. Any delay may aggravate the position and revival may become a distant goal. Further implementation of the programme piecemeal may also jeopardise efforts to rehabilitate the unit since the unit may not be able to operate about break even point till need-based funds are released in full. The unit may continue incurring cash losses and additional working funds may also be wiped out to meet such losses.

Rehabilitation Information Required?

In case it is found that the unit is potentially viable and the management is keen for its revival, a detailed proposal should be prepared and sent to concerned sanctioning authority. While submitting rehabilitation proposal, it should be ensured that the following aspects are covered properly:

- (i) Latest position of the account and that of the securities; i.e. quality, quantity, valuation etc. for determining the exact deficit in the accounts.

- (ii) Unit's latest financial position along with audited balance sheet, profit and loss accounts for the last three years. In case the latest financial statements are not available, proforma/provisional statement can be supplied after verification from the books of account.
- (iii) Requirements of additional facilities and justification for the same.
- (iv) Expected generation at proposed/achievable plant capacity. This should be realistic and achievable under the normal conditions.
- (v) Financial contribution from the management and additional securities being provided by them for rehabilitating the unit.
- (vi) The concessions, if any, required for improving the unit's viability should also be indicated along with the reasoning.
- (vii) A detailed viability report covering technical, economic, financial and marketing aspects.

Industrial Sickness and BIFR : A Survey

The Board for Industrial and Financial Reconstruction set up under the provisions of the Sick Industrial Companies (Special Provisions) Act, has completed four years of effective functioning. It has dealt conclusively with the majority of the cases registered with it and the time is, therefore, appropriate to bring to the general notice of the interested public, the main features of the individual sick

industrial companies dealt with by it. It is proposed in this and succeeding volumes to delineate the main features of the sickness afflicting each company, the attempts made to rehabilitate it, the main features of the rehabilitation schemes and the reliefs and concessions extended by various organisations to facilitate such rehabilitation. Where rehabilitation has not been found possible, winding up has been an inevitable result. As a result of the large number of cases dealt with by BIFR, certain broad conclusions stand out; it is proposed in this Action BIFR, to deal with the salient features of the functioning of the problems encountered by it, the efforts made to streamline its functioning and the steps required to make the rehabilitation process more effective as also to reduce the incidence of industrial sickness.

Objectives and Scope of BIFR

The principal objectives of the BIFR briefly are :

- (a) To evaluate the techno-economic viability of sick industrial companies with a view to either rehabilitating them or to closing them down.
- (b) To stop continued drain of public and private resources.
- (c) ✓ To protect employment, as far as is practicable.

Its objectives can best be described by quoting the preamble to the Sick Industrial Companies (Special Provisions) Act.

"An Act to make in the public interest, special provisions with a view to securing the timely detection of sick and potentially sick companies owing industrial undertakings, the

speedy determination by a Board of experts of the preventive, remedial and other measures which need to be taken with respect to such companies and the expeditious enforcements of the measures so determined and for matters connected therewith or incidental thereto."

Scope of BIFR

At the outset it must be pointed out that the scope of the BIFR is rather restricted. It covers only large and medium and large scale companies in industries included in the First Schedule to the Industries (Development and Regulation) Act, 1951. It is ~~recluded~~ there from considering the shipping industry and the public sector companies. Even within this ambit, it is not as though all sick industrial companies come under its jurisdiction. The ~~act~~ contains a rather restrictive definition of a sick industrial unit for the purposes of the BIFR. The IDR Act itself enumerates only industries which were known at the time when the ~~act~~ was first ~~formulated, i.e. in 1951~~. No attempt has been made so far to systematically update and enlarge the entries in the First Schedule. It will be readily conceded that both extensively as well as in depth, the industrial structure of the company has developed in complexity but that is not adequately reflected in the enumeration of the industries in the First Schedule. This has presented some difficulties when the BIFR has had to refuse dealing with industrial units which probably or from a common sense point of view should be so treated by, for the simple reason that they do not figure

in the First Schedule to the act. A company has to be regarded as sick when its net worth has completely been wiped out. However, Two further restrictions are imposed in determining which companies come within the BIFR's Jurisdiction. These are :

- (a) The company should have been in existence for not less than 7 years and
- (b) It should have suffered cash losses in the two immediately preceeding years, i.e. preceeding its registration.

The practical effect of these qualifications is that even if a company has eroded its entire net worth, if the required period of 7 years from registration has not been completed the BIFR is precluded from dealing with it. This is a matter of particular concern, because in capital-intensive industries where the incidents of depreciation is quite heavy in the initial years, it quite possible for a company to erode its net worth completely in less than 7 years. We have had instances where we refused registration of companies on this ground. The condition of cash losses in two successive years also implies that only after the company has reached a stage of critical sickness, can it seek registration with the BIFR. A company can continue to have cash surpluses even while suffering accounting losses. The natural outcome of this definition is that most of the sick industrial companies which are registered with the BIFR have their net worth eroded 10 to 20 times over. The significance of this restrictive definition is that the problem of the

rehabilitating these companies becomes all the more difficult. In fact, an appreciable proportion of the companies registered with the BIFR have ceased the operations for quite some time, extending in certain cases to two or three years. It could, therefore, be quite rightly said that a good number of the cases referred to the BIFR are virtually mortuary cases. It is essential that industrial sickness is recognised and tackled at a sufficiently early stage. This is an aspect which will be dealt with later when considering the steps required to be taken to make the BIFR a more effective instrumentality than it is.

Extent of Sickness

The latest Reserve Bank of India statistics indicate that the number of sick large and medium industrial companies as at the end of December 1988 was 1241 ; the amount of bank and financial institutions funds locked up in these sick industrial companies was Rs. 3387.30 crores. This, however, does not give the complete picture. There are various other types of defaults such as statutory dues, workers' dues, extended trade credits etc. If this latter are also taken into account, the amount of funds both private and public ^{are} involved in sick industrial companies would be very much ^{figures} larger than the figures cited by the RBI. It has already been stated earlier that the coverage of Sick Industrial Companies (Special Provisions) Act is restricted only to large and medium industrial units figuring in Schedule I of IDR Act. It specifically excludes small scale industries and ancillary units. The Reserve Bank of India figures show that

*Amk to
signature*

2,40,573 units in this category are sick and the amount of institutional dues tied up in them is Rs. 2141 crores. The problem of sickness in small scale and ancillary units in a way rendered more intractable because of the very large number of units involved. A different set of ~~modelities~~ will have to be evolved to tackle the phenomenon sickness in small scale and ancillary units in an effective manner. It has suggested from time to time that a BIFR type mechanism should be set up to deal with them. But considering the smallness of their operation, their ~~slender~~ financial strength and their number, the practicability of replicating the BIFR to deal with them is open to serious doubt. A different and informal and decentralised procedure/ mechanism will have to be evolved to deal with them rather than a formal and judicial one.

Powers of BIFR

The process of evolving a rehabilitation package is a complex one. Apart from the fact that an indepth techno-economic study with a detailed financial analysis of prospects and that too over a future period of 10 to 12 years has to be carried out, the ~~preparation~~ of a revival scheme involves the participation of a number of organisations. These are financial institutions at All India and State levels, banks, State and Central Governments, labour, creditors and promoters. If the techno-economic study shows that after taking appropriate steps such as inducting additional working capital and / or installing balancing equipment or expanding the unit of diversifying a product line, the unit can earn

operational surpluses, the question to be considered is whether the operational surpluses over the projected rehabilitation period, which can stretch to maximum of 10 years, would be adequate to liquidate the accumulated financial liabilities, various reliefs and concessions are required to be provided by the institution involved. If, within the frame work of reliefs and concessions that the various institutions involved are agreeable to, the ~~restructured~~ liabilities can be liquidated within the rehabilitation period by the anticipated operating surpluses, the company has to ~~adjudged~~ unviable and its winding up ordered.

SICA lays down the framework within which the BIFR has to operate. It also lays down its powers and the limitations on its powers. When a sick industrial company is registered with the BIFR, it is dealt with the following stages. In the first stage, an enquiry has to be held to determine whether the unit is sick. If so determined, the BIFR has to ascertain whether the company can make its networth positive through its own efforts. If that is not possible, then a finding has to be recorded as to whether it is in the public interest to attempt to rehabilitate the company. The measures which the BIFR can take are outlined in SICA. The rehabilitation effort commences by commissioning an Operating Agency to prepare a techno - economic viability report. Operating Agencies comprise the All India Financial Institutions and selected banks, the latter on the basis of

RBI's advice. Based on the viability report and such other measures (such as merger, change of management) as may be appropriate, BIFR can proceed to draw a draft scheme of rehabilitation. Such scheme has to be agreed to by the parties which are called upon to give reliefs and concessions in respect of past liabilities and to give fresh funds by way of long term capital or working capital. It is advertised inviting comments and objections. Thereafter, the scheme can be sanctioned with or without modifications by the BIFR.

In considering the functioning of the BIFR one salient point has to be kept in mind. While the BIFR has far reaching powers vis-a-vis management, it has virtually no powers vis-a-vis Governments, banks and financial institutions. It can change managements, order the transfer of shares at prices fixed by it, order financial restructuring, impose on promoters and quantum of funds that this should bring in, determine changes in the management structure etc. but financial reliefs and concessions from State and Central Governments, banks and financial institutions can be given only with their concurrence. If the scheme which the BIFR might draft fails and the inevitable follows, namely winding up. It must be emphasized here that the BIFR has no mandatory powers in respect of ensuring flow of funds either of working capital or term loans from banks and financial institutions.

Statistics of performance

The experience of the BIFR is unlike that of many other

quasi-judicial tribunals. While it is a fairly common experience that quasi-judicial tribunals set up for the purpose of expending disposal of cases have accumulated a substantial backlog, the BIFR has been able to reduce to manageable proportions the number of cases it is currently concerned with so that decisions can be taken about either revival or their winding up within a reasonable span of time. The figures relating to number of cases registered in successive years upto 30th June, 1991 are as follows:

Number of Cases Registered			
Year	Registered	Dismissed as not maintain- able	Effective Registra- tion
1987	311	43	268
1988	298	80	218
1989	202	33	169
1990	151	20	131
1991 (as on 30.6.91)	73	4	69
Total	1035	180	855

*Source?
Is the source
authoritatively accepted?*

The cases registered have been disposed of in the following manner:

Registration of						
	1987	1988	1989	1990	1991	Total
Approved Accorded u/s 17(2)	36	36	40	15	1	128
Schemes sanctioned u/s 18(4)	109	66	25	3	-	203
Winding up recommended u/s 20(1)	63	55	15	4	-	137
Sale ordered u/s 20(4)	1	-	-	-	-	1
Reference from Courts disposed	1	-	1	-	-	2
Draft Schemes circulated as on 30.6.91	9	14	14	6	-	43
Winding up notices issued as on 30.6.91	27	22	11	5	-	65
	246	193	106	33	1	579

Though this might give some satisfaction, it is a mixed type of satisfaction, BIFR could have dealt with substantially more had the quality of cooperation been better particularly from the promoters of industrial companies and State Governments. There have been very considerable in coming to decisions on matters within their jurisdiction relating to reliefs and concessions. There have also been delays in far too many cases on the part of promoters in furnishing their rehabilitation proposals and in fulfilling their financial commitments.

Streamlining of Working of Govts., Banks etc.

It would be appropriate to review the state of affairs that existed at the time that the BIFR commenced functioning. Practically no State Government had a clearcut policy laying down reliefs and concessions of fiscal, financial and administrative nature that it would be prepared to extend to sick industrial units; there were no worthwhile concessions from the Central Government. Each industrial company had to depend for funds on its consortium of banks which generally pulled in different directions and did not follow the lead bank; the State Governments also generally took the view that rehabilitation was primarily the responsibility of the financial institutions. It was only the FIs which acted with a satisfactory degree of coordination. The BIFR, therefore, tried to set about bringing some order and some rationality in to this state of affairs. The first step that it took was to impress upon State Governments the need to lay down a detailed policy relating to reliefs and concessions in the same manner as they have policies in regard to the forms of assistance that could be given by them to new industrial units. Most State Governments have by now laid down these policies so that decision making on their part in regard to reliefs and concessions expected of them in particular revival schemes becomes easier and less time consuming unlike in the past when every case had to be dealt with on its merits. The content of policy covers a wide spectrum ranging from very liberal concessions to rather modest ones. So far as Central Government is concerned it has devolved on the BIFR powers to grant a

variety of reliefs in the field of direct taxation including the power to grant tax reliefs in cases of merger. It has recently, after some prodding by the BIFR, evolved a liberal policy of interest-free excise loans repayable over an extended period of time. It has, however, not delegated powers to the BIFR to sanction such loans; these can only be recommended and placed before a ~~Committee~~ of middle ranking officers of the Central Government, which evidently leads to avoidable delays in disbursement. Efforts by the BIFR to have the power of sanction delegates have come to a naught. The Central Government, however, has so far declined to exempt from capital gains tax, sale proceeds of surplus assets even when such sale is part of the revival scheme sanctioned by the BIFR and even though the proceeds are required to be employed wholly in the rehabilitation of the company. Since the rate of capital gains tax is quite high it bears rather heavily on the sick industrial company. It is rather ironical that a sick industrial company should be required to pay taxes on internal resources generated by sale of surplus assets even though such internal resources are to be deployed fully on revival of the company in juxtaposition with sacrifices expected of all other organisation.

It is the practice in the banking system for each industrial company to be serviced by a ~~consortium~~ of banks, each of which meets a certain defined portion of the working capital required. While considering a revival scheme, entailing

concessions from them as also fresh funds, each bank used to take an independent line and seek separate sanction of an hierarchy of officials and its Board of Directors. The practice of following the lead bank was virtually non-existent. With the help of the Reserve Bank of India, a convention was evolved that the lead bank and the bank with the largest exposure in the sick industrial company would actively participate in the consideration and formulation of a revival package and that once they agree to it the other banks in the consortium would follow suit and not subject it to their own independent and time consuming examination. The servicing of the financial needs of company by its consortium of banks also creates difficulties in post / sanction implementation of the scheme. It has been our experience, that considerable amount of time is spent in documentation, the documentation varying from bank to bank. Further, money required to be released as fresh working capital funds is released only in dribblets at different points of time and the amounts therefore often amount to subscriital levels in the sense that the amounts released are often too small to enable the company to raise its production to the level of atleast cash breakeven. It is for this reason that the BIFR has for quite a long time been exhorting the banking system especially the RBI to introduce a system of single window clearance for fresh funds, the lead bank taking the responsibilities of assessing working capital requirements both fund and nonfund based and of releasing the same with the proportionate amounts being distributed in due course to

the other participating banks. It is a matter of some satisfaction that in April of this year Reserve Bank of India and the banking system have accepted this concept. It is to be hoped that ~~implementation will be prompt~~. Insofar as the financial institutions are concerned they generally function in coordination and have presented no serious problems except that insofar as schemes involving IRBI are concerned, we have found that the other financial institutions do not, on occasion, accept their proportionate liabilities in regard to the flow of fresh funds but seem to insist on their own independent assessment. This presents difficulties since the IRBI's funds are very limited as are its powers of sanction.

Causes of Industrial Sickness

Prevention is better than cure. It is, therefore, necessary to touch upon, briefly, the principal causes of industrial sickness as have come to notice in the course of examination of the cases reported to us. Broadly speaking, these can be placed in the following broad categories:

- by not fault internal policies?*
- 1) Incompetent and / or dishonest management.
 - 2) State and Central Government policies, and
 - 3) Unexpected adverse developments in the external environment.

It is, however, necessary to deal with specifics relating to each of these categories. This will be done in brief in order to subsequently highlight the measures which, in our opinion, should be taken to minimise the incidence of industrial sickness.

i) We have found that the preparation of detailed project reports involving indepth techno-economic analysis of all the factors bearing upon and relevant to the success of a proposed project is generally not resorted to by Indian entrepreneurs. Nor apparently are such detailed project reports insisted ^{upon} on by the financial institutions which are required to appraise the projects. Projects seem to be started more on hunches and some very broad assessment of future prospects rather than on detailed studies of relevant factors. This is true even of leading industrial houses. In some cases when we enquired as to why expansion projects were undertaken which ~~vame~~ to grief and whether these were preceded by detailed market studies of demand we were told by the concerned entrepreneurs that they had gone on the basis of the Planning Commission's Five Year Plan projections. We would like to mention here the factors which, in our opinion, are crucial to the success of a project and which we have found ^{are} ~~are~~ generally neglected.

The first is an assesement of market demand for the proposed product vis-a-vis capacity. This assessment, which in itself is a complex exercise, will have to be in terms of the economic marketing zone of the proposed project. Detailed market

studies are, however, conspicuous by their absence. Indian entrepreneurs have displayed a ~~herd~~ mentality by numbers of them taking up simultaneously projects for making goods, for which an euphoria develops. Cases in point are mini cement and paper plants, light commercial vehicles, two-wheelers, TVs, and now sponge iron plants, steel-making units, consumer durables familiarly referred to as white goods. Waves of optimism relating to demand growth periodically surge through the economy and a rash of investments ensues, leading to capacities far in excess of demand. The onset of sickness is particularly rapid in capital intensive industries. The second factor is minimum economic size of plant and the use of appropriate technology. It is because of failure to adhere to this criterion that a large number of mini paper and mini cement plants have become ~~unviable~~. Not only that, we found that in case of mini paper plants Government gave permission for the import for 70 and 80 year old machinery which obviously was responsible for lack of versatility in the machines and poor productivity. The third factor is identification and use of proven technology. Likewise, it has been found that a detailed study of availability of raw materials and transporting them to the factory site is not done. Vague

For Govt. also see the age of the machinery granted permission of - infra.
The Govt. has been only

impressions are formed of the availability of the raw materials without proper study of the cost of raising/acquiring and assembling and transporting the raw material.

- ii) The next factor, and this is true particularly of power intensive units such as mini steel plants, is the non-availability of power. Far too many units have come to grief because of erratic supply of power and the failure of the entrepreneur to provide adequate captive generation capacity. At the time of setting up units State Electricity Boards freely give assurances of availability of power. Once the project is set up they are subjected to heavy power cuts and even when power is available the quality of power leaves much to be desired. Another factor is the wide difference in tariffs as between one State and another. When an industry is located in several States, those units which are located in States having relatively much higher power tariffs than another State straightaway run into losses, especially when power costs constitute an appreciable percentage of total costs.
- iii) Insofar as industries like jute and textiles are concerned, their sickness is largely attributable to failure to modernise their equipment, raise productivity and to move into higher value added products and shed certain lines of production.

The continuation of losses over a long period leads to discharge even if modernisation were to be now attempted because the anticipated operating ~~surpluses~~ are not adequate to cope with the restructured liabilities. These units are also characterised by large manpower and low productivity.

- iv) We have also come across numerous cases where exorbitant trade union demands leading to wages much above levels of wages prevailing in the region have had to be paid leading to losses to the undertaking particularly when such high wage levels are unaccompanied by corresponding increases in productivity or by willingness to rationalise the labour force.

- v) The sort of skills required of management in industrial units are quite different from those required in trading or agricultural activities. Persons engaged traditionally in trade and in agriculture sometimes venture into industry. They do not realise that industry requires a different type of management style entailing particularly the employment of professionals at different levels of management including top management including top management and adequate delegation of decision making powers. Ignorance coupled with attempts to keep all decision making even in respect of petty matters in the hands of

Could you make any effective use of the people who have come across of this nature? Do you need better and training?

See 11/2-8/12 entrepreneur leads directly to sickness of the unit. Failure of management by it self, i.e. incompetence of top management is responsible for sickness. When appraising a project, financial institutions should ensure that the entrepreneur will be able to make a success of the enterprise. We realise that it is a somewhat difficult situation in which the financial institutions are placed, because they are required to encourage new entrepreneurs. Competent management and an adequate management structure are as vital to success of an industrial undertaking as capital, technology and skilled labour. More often than

*Are you sure?
Family size must
Unit headway!
There are
excesses* not the unsuccessful managements are of a family type and do not believe in professionalism and delegation of authority. This is compounded by quarrels among the family members. Greater attention to the background of the entrepreneur and to the formulation of a strong management structure has to be emphasised by the institutions.

- vi) When a new project is commenced certain assumptions are made about the cost, capital cost and about the time it will take to complete the project. It is also endemic to find cost and time overruns. These overruns, if within margins provided for, would not materially affect the

success of the undertaking but very often the overruns are so substantial as to upset the initially conceived economics of the project. The problem is compounded by the difficulties experienced by the entrepreneurs in finding the resources for meeting the cost overruns. Apart from his own want of resources if he applies to the financial institutions, the latter take their own time to provide supplementary finance. In the mean time, with the project having attained an advanced level, to bring all construction activity to a halt is also not practicable. Therefore, it is quite common for entrepreneurs to divert the working capital which they would have obtained from the banks for meeting the capital cost. Subsequently, when they have to start up the project and again approach the banks for further working capital, the latter quite naturally refuse to oblige on the ground that they have already provided what the enterprise require by way of working capital funds. It is, therefore, necessary to provide for this situation by adopting specially speedy means of reappraising the project and settling the manner of financing the cost overruns. Diversion of working capital has fatal results for the undertaking. There are also cases of thoughtless use by managements of short term working capital-readily provided by

banks when the unit is experiencing halcyon days-
for long term capital investment and when the
external, i.e. demand and price environment change
adversely, the onset of sickness is both swift and
devastating.

vii) We have already commented upon the failure of
electricity boards for power. State Governments
are often tardy in releasing promised funds, even
though such funds are in consonance with the
declared policy of incentives for new
undertakings. There are also cases where State
Governments which have control over raw material
resources, are tardy in releasing such resources,
as especially forest resources, leading to
grievous shortfalls in the availability of raw
materials.

Mark for English!
viii) Central Government also sometimes follows
inappropriate import and tariff policies both
internal and external. Rectificatory steps are
slow in materialising. Smuggling also poses a
potent threat especially when the product is so
small that it can be easily transported without
fear of detection in large quantities across
international borders.

ix) Decision making to remove the factors that cause
sickness in an industrial company attributable to

Governmental policies is very slow. Desire to revive sick industrial undertakings is not matched by prompt action at the State and Central Government levels despite representations to them at the highest level.

- x) We would also like to comment on what other curious phenomenon which we have found. It is common for State Governments to provide number of incentives to industrial units to locate ~~themselves~~ in backward areas. These areas lack in infrastructure. But even more significant is the fact that the labour available in those areas is not accustomed to industrial regime. It is not easy to attract managerial and skilled staff. At the same time, bulk of the labour which has to be recruited from the area is not attuned to industry or industrial discipline. The result is that the industrial unit is characterised by very poor productivity of labour, for which labour cannot be blamed, in the initial years and it takes two or three or even more years for the necessary skills to be developed by them. The result is that in these initial years heavy losses are sustained which cripple the undertaking. Effective means will have to be adopted to ensure reasonable level of productivity right from the first stage. This can be ensured if the required labour is assembled sufficiently in advance of the date of

Is it feasible to
revenue for small and
medium size
enterprises?

How will
this be a
practical
idea? How
will
play out
factors?

commencement of production and subjected to
training either in nearby ITIs or in other
factories. The cost of training of labour which
is unaccustomed to industry should be recognised
as much an element of capital cost as machinery or
land. Comparatively speaking, the cost of such
training would be small if one were to take into
account the benefits that would accrue from having
a trained labour force. Likewise, facilities
would have to be provided to attract managerial
and skilled labour of the required calibre from
other areas. It is, therefore, worth considering
whether the package of incentives now offered
cannot be enlarged to include subsidisation of
pre-production training of labour in the backward
areas.

Is it
feasible
to
provide
this
will
it be
agreed upon?

These then are some of the factors which we have
found responsible for industrial sickness. It
would be observed from the preceding recital that
a proper project appraisal could identify these
shortcomings while project appraisal is a field in
which financial institutions have accumulated
enough expertise, it is sometimes difficult to
resist the impression that some of the key factors
like market demand, availability of raw material,
competence of management, availability of power,
size of plant etc. are not subjected to rigorous

scrutiny. It is also difficult to resist the impression that approval of the project is taken as axiomatic merely because a letter of intent or a licence has been given by the licensing authority. Obtaining of a licence creates in the entrepreneurs' mind and possibly in the mind of the appraising agency, the impression that Government is satisfied that adequate demand exists for the proposed production. Possibly if licensing were to be discontinued, entrepreneurs will then do more home work before starting new ventures.

- xi) The revival of sick units is rendered more difficult because of the conspicuous absence of monitoring of producing units by the banks. The banks have adequate access to information from the producing units. But probably a meaningful analysis of the returns submitted by them, especially when the financial position is not satisfactory, is seldom attempted. The result is that there is a continued flow of funds from the banks even when the unit makes losses and for that matter even when it is making cash losses and working capital funds are diverted to meeting those losses. When we questioned the banks as to why they have continued to release funds without calling a stop at some point of time and insisting

on an appraisal of the reasons for sickness and the remedial steps to be taken on the part of the parties concerned, banks justify their action by referring to holding operations. Holding operations are all very well but they have to be simultaneously accompanied by hard appraisal of the viability of the undertaking. It is our impression that banks do not have necessary expertise to undertake such appraisal though they can obtain from the company all the material required to obtain from the company all the material required to do so. Financial performance reflected in bank overdues irregularities in cash credit accounts, abnormal levels of creditors and arrears in payment of statutory, including workers PF & ESI dues should provide adequate signals to banks about the company's health. It is for this reason and in addition the stretching out and non-payment of trade ~~credits~~ or non-payments of statutory dues that ~~networth~~ is eroded by 15 to 30 times. It is this factor which accounts for the fairly large incidence of winding up of industrial units in our total performance because even if remedial steps are taken immediately the operating surpluses expected are taken immediately the operating surpluses expected are just not able to take care of the restructured liability within the prescribed rehabilitation period.

Difficulties Encountered by BIFR

We will now deal with the principal difficulties which the BIFR has to ⁹ with the different organisations which are required to cooperate in formulating a rehabilitation scheme.

(1) Promoters

(a) Delay in Submitting Revival Plans

The promoters of sick industrial companies show great anxiety in getting their units registered as sick industrial units by the BIFR. Once that has been done often considerable delays are encountered in obtaining proposals of the techno-economic viability scheme by the Operating Agency. The Operating Agency has to conform to the time limit of 3 months from the date of laying down guidelines by the BIFR for the formulation of the revival scheme. Promoters are anxious to get their units registered because once such registration has been effected and the process of enquiry into their sickness started, their companies get protection from Court proceedings initiated by creditors. The commencement of an enquiry by BIFR results in automatic exclusion of jurisdiction of the company are concerned. To counter this tendency BIFR now lays down time limits within which promoters should submit their rehabilitation proposals failing which the operating agencies are directed to submit their viability reports on the basis of available data.

(b) Non-induction of Promoters' Contribution

A rehabilitation scheme has an essential component the amount of funds which the promoter will bring in as his contribution. Much the greater part of the funds has to be provided by the financial system. There have been instances where the banks have implemented their part of the scheme and have released additional funds without compliance by promoters with their obligations. The result is that process of revival gets delayed and bank funds are put in jeopardy. Banks are, therefore, becoming strict, and rightly so, about promoters bringing in their promised funds before releasing funds of their own. The practice has, therefore, now been evolved of BIFR laying down the time schedule for bringing in of requisite funds by the promoters and unless they do so the banks have been directed not to release their portion of rehabilitation funds.

What do you mean by this?

How relevant is this?

(1) Sick units & large industrial houses

Many sick units belong to large industrial houses. These industrial houses have numerous other units which are healthy and have considerable resources. A peculiar phenomenon that has been noticed is the tendency on their part to neglect their sick units and to depend for their revival on large reliefs and concessions from banks, financial institutions, Governments etc. and additional funds

Can you figure

from them. Simultaneously they formulate proposals for new projects entailing very substantial outlays which again are posed to the financial institutions for assistance. We have notised numerous instances where hundreds of crores of rupees of banks and institutional funds are locked up in sick units of such industrial houses while simultaneously the FIs sanction and finance new projects, entailing very large outlays by them. In the case of such industrial houses, while considering the cases of their revival BIFR has consistently required that they should bear much the greater part of the responsibility of reviving these sick units. BIFR insists on their bringing in much larger proportion of the rehabilitation funds required than 20% and normally does not agree to reliefs and concessions beyond RBI guidelines. It would be correct to say that the banks and the financial institutions, especially the latter, do not exert as much pressure as they are in a position to do on these industrial houses to set right affairs in their sick units. Often, these units are sick more because of internal mismanagement rather than any adverse external factors. So far as the banks are concerned, these industrial houses take full advantage of the fact that different banks or consortia of banks finance different companies in their group. And all these banks function independently without any attempt at either exchanging information among themselves about the state health of the group's companies or attempting a coordinated approach towards the financial requirements of the group. To some extent this is due to the multiplicity of banks involved but

the same cannot be said of the financial institutions. They are in an even better position to discipline the large houses because they have a system of close knit coordination among themselves and it is to them that these industrial houses turn for financing sickness could be reduced and the sacrifice of public funds lessened if these industrial groups either realised or were made to realise their responsibility towards sick companies in their groups.

(2) Banks & FIs as Operating Agency

Coming to the financial institutions and the banks in their role as Operating Agencies, our experience with financial institutions is quite that the quality of their technoeconomic viability reports is commendable. The same cannot be said about the banks. Several banks have been recognised as Operating Agencies. Most of them display shyness when asked to take up technoeconomic viability studies. They would rather prefer to leave them to the financial institutions. It is not enough for the banks to get recognition as Operating Agencies; they have also to equip themselves to undertake technoeconomic studies either in house or by supplementing their own efforts by calling in suitable consultancy agencies. The preparation of a technoeconomic viability study requires a multi-disciplinary approach encompassing market study, technology study, raw material availability, state of equipment etc. At present most of the banks are ill-equipped for this work. As for the IRBI its problem is that it is comparatively not as well equipped in terms of staff or

experience as the other financial institutions. The burden placed upon it in the matter of preparation of feasibility studies has, however, been disproportionately larger, a factor which is in process of correction.

Let investment go for savings?

(3) Inadequate cooperation by:

(a) State-level Financial Institutions

(b) Foreign & private banks

Quite often, the BIFR encounters difficulties created by State-level financial institutions - State Finance Corporations and Industrial Development Corporations in evolving revival schemes. They, quite unreasonably, refuse to agree to even minor reliefs, even though their financial sacrifices are of a much lesser order compared to banks, insisting for example on levying penal interest when this is waived as a matter of course by all else concerned. Another example is refusal to lower interest rates on the specious plea that their assistance has been refinanced by IDBI and that, therefore, unless the latter agrees to correspondingly reduce the refinance interest rate, they will be put to losses. They forget that if the unit goes to the wall, they will lose not only interest but also principal. In addition, and this is particularly true of State Industrial Corporations, though they are substantial shareholders in joint venture companies, they decline to chip in with their share of additional funds. The IDCs & SFCs do hardly any worthwhile project appraisal; their whole anxiety is to sanction as many projects as

possible and when some of the latter start showing signs of distress, get into a panic and show greater eagerness to close the units than an attempt their revival.

Coming to banks, the ~~foreign~~ banks often do not participate in revival schemes. They prefer to write off a large portion of their dues, the more so because of the comparatively higher rates of taxation on their profits. Even if a revival scheme is eminently feasible, the BIFR finds itself at a loss to implement it since the foreign banks - and this is all the more so if they are the sole bankers - choose to walk out. The problem then becomes one of locating alternative Indian banks, which is not easy for a sick company. Foreign banks also, as a rule, do not accept the viability studies adopted by BIFR; they maintain that it is against their principals policies to attempt to revive sick companies. The RBI generally has been unable to help in this situation; its ability to influence foreign banks to fall in the line with the national policy embodied in SICA is very limited. Indian entrepreneurs are learning the hard way that foreign banks are fair weather friends; nationalised Indian banks, whatever their shortcomings, are prepared to stand by them in their difficulties.

Coming to private Indian banks, their behaviour is only a shade better than of the foreign banks. Once the unit falls sick, they generally decline to participate in revival schemes, pleading over-exposure. In such events, BIFR has to request RBI to make alternative arrangements by making the

nationalised banks take up their shares: we feel that RBI should not permit the private banks to shirk their responsibilities.

(4) Delays by State Governments

It has been mentioned that most of the State Governments have by now laid down clearcut policies in regard to the fiscal, financial and administrative reliefs and concessions that they are willing to offer to sick industrial companies; that they are willing to offer to sick industrial companies; the content of their policies varies significantly from State to State. Several of the State Governments, and ironically this is particularly true of the less industrialised ones, do not cooperate in the required degree. They repeatedly seek adjournments because of inability to take decisions on matters relating to them. They also generally do not send senior representatives with whom the BIFR can have a meaningful dialogue, to the hearings. Sometimes they do not send their representatives at all. That is the main reason why several cases have been lingering on before the BIFR. It is now proposed to allow them much less leeway than has been done so far.

(5) Labour

Coming to labour, since the workers are the most affected by closure of a sick industrial company, they are generally very cooperative. They are by and large ready to agree to measures of rationalisation which of course are accompanied

Do they
not agree?
-
Unsubstantiated
by measures?

by concomitant compensation amounts. BIFR generally insists on 2 certain degree of sacrifice in the form of a wage freeze and/or rationalisation to be embodied in long / term agreements, for a period of not less than three years, between them and the management. Compared to intrinsic capacity, labour is the one party which makes the maximum sacrifices. However, a tendency has been noticed of late in some cases for labour to ~~renege~~ on their agreements and to raise demands for hikes in wages, as soon as the process of recovery and improvement in financial condition begins. This is a tendency that needs to be ~~strongly~~ discouraged because it will only result in gains being made by one party at the expense of the other parties which have made sacrifices, apart from jeopardising the prospect of revival.

Among all the parties involved, the party which makes ~~comparatively~~ less sacrifice is the promoter himself. As a matter of fact when BIFR started functioning promoters come to it with the expectation that there will be liberal hand outs to them. In course of time, however, they have come to accept BIFR's insistence on their participating in a substantial way financially in the revival scheme; if rights of ownership or management are claimed, correspondingly financial responsibility should also be acknowledged. BIFR has been able to bring home this factor to the promoters to a greater extent than in pre-BIFR days.

Mergers & Management changes

There are certain features in the functioning of BIFR which

This is a very important point to be made in the healthy units

need to be pinpointed or underlined. The first is that in good number of cases - in 23 BIFR had effected changes of management and in 28 cases approved mergers of healthy units with sick units. We are satisfied that merger of a healthy unit with a sick unit is a potent means of securing speedy and certain revival. The alternative managements selected or managements of the healthy units to take over sick units generally have strong financial resources and proven track record in successful management of industrial enterprises. These two methods which in many cases are applied together are the only way of reviving large sick units with very heavy accumulated losses. Merger enables healthy units with large taxable profits to gain by setting off losses of the taken over units against their tax liabilities. Till recently it was left to the Operating Agencies to locate alternative managements. The BIFR has begun to resort to the method of public advertisement with a view to casting the net wider and evoking response with a view to casting the net wider and evoking better response from potential alternate managements. Where more than one party is interested in taking over a sick unit the procedure followed is to obtain detailed offers from the competing parties and to take into account various factors other than financial such as their management track record, synergy, the degree of their dominance in the industry etc. An alternative method is to frame a scheme of rehabilitation and invite publicly interested parties to put in their offers.

There seems to be increasing interest on the part of healthy companies in taking over sick units, whether by way of synergy or vertical integration or diversification. The BIFR route avoids the need to apply for letters of intent and Industrial Licences, eliminates gestation periods and makes available production facilities at historical cost. Merger with the tax paying company offers substantial tax concessions, provided, of course, that an amount not less than the tax saving is invested in the sick companies. BIFR itself is competent to approve mergers - which it does much faster than Courts - and sanction tax reliefs. Especially where large sick units are involved, this should be the preferred route for revival, as the healthy company normally has considerable financial and managerial resources.

Sale of units - powers to FIs & Banks

BIFR has also power to effect sale of industrial units. The standard criticism of winding up orders is that the process of liquidation of a sick industrial company becomes a very long drawn out process. If the sale of an industrial unit can be effected as a going concern, production capacity can be protected since in most cases the unit is non-viable only because of the burden of past liabilities and would require the purchaser only to pay for the value of the assets. Sales of industrial units as going concerns, if undertaken by the BIFR, could lead to much quicker results than if left to the official liquidator. The problem that we have encountered, however, is that the erstwhile owners do

not cooperate and place all sorts of obstacles in the path of interested parties on some pretext or the other. It is in this context that it is necessary for Government to seriously consider vesting in the all India financial institutions and banks powers similar to those conferred on State Financial Corporations under section 29 of the SFC Act which empowers them to take physical possession of the assets which they have financed when the units are unable to fulfil their repayment obligations. The SFCs are empowered to organise their sale to interested parties. It is not clear why a similar and the banks. If that is done, such sale, however, being effected only on the orders of the BIFR, it could be provided that the sale proceeds would be deposited with the High Courts for distribution among those concerned in accordance with the provisions of the Companies Act. This is a matter that requires urgent consideration.

Sale of Surplus Assets - land

There is one important aspect of the rehabilitation problem which needs to be commented upon. An important means of raising resources is the sale of surplus assets. The most valuable asset in metropolitan cities is land. The incidence of sickness is heaviest in the traditional industries namely, jute and textiles. The liabilities of each of these sick units are enormous compared to their earning potential. There is no way most of them can be made viable even after modernisation and rationalisation of labour unless the restructured liabilities could be drastically reduced. The

Amelle

only way of doing so is for them to be enable to sell the land that is surplus to their requirements. Almost all of them have large areas of real estate which they do not need and considering the prices of real estate in Bombay, Calcutta Madras etc. handsome amounts can be fetched for ploughing back into them if only permission is given by the State Governments to do so. This is a matter which has repeatedly come up for discussion between the BIFR and the State Governments. For a variety of reasons State Governments have not found it possible to agree to freely permit disposal of surplus lands, even though it has been mentioned to them that adequate precautions would be taken to ensure (a) that the price realised is in conformity with current market values and (b) the amounts so realised are ploughed back into the revival scheme under the supervision of the BIFR. If such permission could be given most of the sick units in the large cities can be revived and modernised. If such permission is not given, as is presently the case, there is no alternative but to wind them up. In this context it is necessary to mention also that the BIFR has not succeeded in its efforts to make the Central Government agree to waive Capital Gains Tax on the sale proceeds of surplus assets of sick industrial companies. The incidence of capital gains tax is quite heavy; it is counter-productive rather to seek to profit from a sick industrial company. It is to be hoped that the Central Government will review its decision in this matter.

BIFR & Losses to Banks

Eminent personalities in the banking system and editorialists have from time to time, from a public platform or interviews in the news media, charged BIFR with causing losses to the banks required to finance revival schemes. (This disinformation and motivated revival schemes. This disinformation and motivated campaign would normally be treated by us as puerile, but for the pertinacity with which it is repeated. If a lie is repeated many times, it comes to be perceived as the truth. It is, therefore, proposed to deal with this criticism.

IT has been pointed out that the sick companies referred to BIFR generally have their net worth eroded several times over. Their losses, financed among others by banks and financial institutions in the shape of unpaid principal of loans and interest, amount to 20 to 30 times and even more than the shareholders funds. The RBI's statistics as of December, 1988 indicate that Rs.3387 crores of banks and FIs funds are locked up in sick units in industry, most of it on large scale units. We hope that bankers will concede that BIFR has had nothing to do with coming into existence of this state of affairs.

What is probably meant to be conveyed is that the banks will suffer heavy losses because of the fresh flow of funds from them and the reliefs and concessions in respect of past liabilities envisaged in BIFR's revival schemes. In the first place, nothing relating to banks can be included in a scheme

unless they give their written concurrence. BIFR has no powers to compel them to give reliefs or to sanction fresh funds. They participate fully in the viability schemes prepared by the Operating Agencies, comprising Banks & FIs, and have full freedom to accept or reject them. It would also be pertinent to recall that banks do not have a charge on fixed assets; their charge is only on floating assets which in a sick company would be virtually non-existent. This is a state of affairs which the banks are negligent in forestalling despite their having the right to do stock audits etc. If, therefore, a sick industrial company is liquidated, the banks being in the same position as unsecured creditors, would lose all the moneys advanced.

BIFR's revival schemes would enable banks to recover most of their dues, including interest, which they would have otherwise lost. If the schemes are promptly implemented by all concerned, the company would stand a better than even chance of restoration to health with attendant benefits to all its creditors. It is, therefore, in the banks own interest to fully and speedily implement their part of revival schemes. It has been pointed out subsequently that among others, banks have proved extremely dilatory in implementing their responsibilities with the result that they stand to lose by their own inaction. For this, they can only blame themselves and not the BIFR. In a few cases, the schemes might fail. Perfection cannot be expected in an imperfect dynamic environment. But the consequent losses would be

miniscule compared to the gains for them and to the economy of successful revivals.

Extraordinary concessions

It must also be pointed out that BIFR has come across cases where banks and FIs have given extraordinary concessions and written off large amounts of their dues, beyond anything which BIFR has agreed to so far.

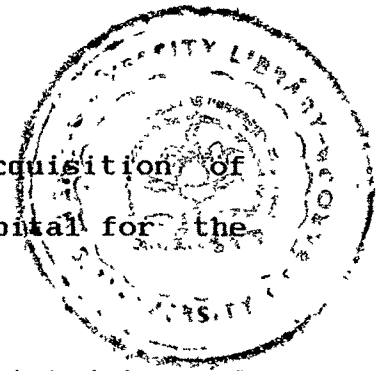
The following illustrations are revealing:

In the case of Industrial Group 'C', the accumulated losses (approximately) of sick companies is Rs.115 crores. Dues to banks amount Rs.67 crores (fund based) and Rs.23 crores (non fund based). This group has systematically gone about acquiring sick companies on the presumption that large reliefs & concessions would be forthcoming, including major part of the funds required for rehabilitation, even though it has other large companies earning sizeable profits.

In the case of industrial house 'M' which has 4 sick companies, with accumulated losses of Rs. 65 crores, the exposure of the principal bank is Rs.161 crores. Several new projects have been approved for this group by FIs, with capital outlay aggregating Rs.830 crores, the greater part of which would be met by institutions.

In the case of Group 'P' with 2 large sick companies, one of which has been ordered to be liquidated, the aggregate of FIs and Banks dues amount to Rs.37 crores. However, additional funds have been sanctioned by a Bank which has now lost

substantial funds in the sick company for acquisition of several other units, including fresh working capital for the latter.



Industrial Group 'B' has a sick unit with accumulated loss of Rs.35 crores. FIs & Banks loans & interest dues aggregate to Rs.136 crores, a substantial part of which is in arrears. This Group's cash profits from other healthy companies runs to over Rs.100 crores every year. FIs have sanctioned during the period of default by the sick company loans amounting to Rs.559 crores for new projects. The group has been seeking large reliefs & concessions from banks & FIs and Government for the sick unit. The above is not comprehensive as BIFR does not have access to full data relating to all sick companies of industrial houses, in view of the fact that not all sick units come within its jurisdiction.

Post sanction Monitoring

Delayed implementation by Banks & State Governments

It is now necessary to run to the post sanction scenario. The Act does not specifically call upon the Board to monitor the implementation of its sanctioned schemes. It does enjoin on all concerned to implement sanctioned schemes failing which they would be subject to penal action. The Act also provides ~~that~~ the Operating Agencies can report to the BIFR any modifications in the revival schemes which they consider necessary in the light of their actual working. However, right from the beginning, the BIFR has felt that unless it

actively monitors the implementation of the schemes it would be operating in the dark and would not know whether the revival schemes remain only on paper or whether they face any difficulties in implementation. BIFR has, therefore, been actively monitoring the implementation of its sanctioned schemes. It has found, to its utter surprise, that there are tremendous delays in the implementation of the schemes. Parties who are primarily responsible for such delays are the banks and the State Governments. It takes anything upto a year for the banks to release funds. Six months or more are taken up in meticulous documentation. Thereafter different banks in the consortium release both fund and non-fund based limits of working capital in dribblets at different points of time. More often than not, the releases are of sub critical amounts, that is, the unit continues to operate at below breakeven levels. In most of the cases of revival the sick industrial units do not have any working capital funds, these having been consumed in financing cash losses. Build up of capacity to breakeven levels and beyond, therefore, requires immediate infusion of substantial additional working capital. This requirement is not adequately recognised by the banking system. Delayed releases of funds for working capital purposes and that too in dribblets hurt them more than it hurts anybody else because the result of continuing cash losses is shifting of the commencement date for the rehabilitation period and the funding of additional amounts of liabilities during the post-sanction period till cash breakeven levels are reached.

P. V. S. Rao
Ex. Secy. BIFR

There does not seem to be a conscious realisation by the banks that they are placing their own funds in jeopardy by such delayed implementation of sanctioned schemes. We have also found cases where the banks do not adhere to the scheme of application of funds laid down by the BIFR. The scheme provides for orderly repayment over a period of time of the banks' dues. Instead when some amounts are realised by the companies, for example, by sale of surplus assets, which are intended to be ploughed back into the company they are forthwith seized by the banks prematurely to extinguish some of their liabilities. This phenomenon of delayed implementation has been repeatedly brought to the notice of the Reserve Bank of India which, in turn, has strongly urged the banks to act with a greater sense of responsibility. One problem is that the banks, generally speaking, do not have strong centrally located monitoring setups for overseeing the implementation of BIFR schemes for sick industrial units. It is hoped that there will be greater realisation in future of the need to be expeditious.

The State Governments have also a considerable role to play in the implementation of the schemes. Numerous cases have been noticed where the State Governments dawdle in implementing schemes. Repeated efforts on the part of the BIFR to get them to expedite action have not met with uniform success. BIFR is in the process of strengthening its monitoring system. But already, as a result of the monitoring that it has instituted, it has taken the

initiative to review the working of its sanctioned schemes. Increasingly its workload ~~not~~ consists of such reviews. Review meetings are held only when the written reports disclose holdups as some points or the other or performances by the company to the ~~ascertain~~ why performance failures take place and to formulate remedial measures. BIFR would like to straightway concede that it is not happy with the status of implementation.

Monitoring Statistics

The following statistics in this regard are revealing:

	17(2) Cases (1)	18(4) Cases (2)	Total (As in Jan'91) (3)
i) No. of Schemes which have succeeded prospects	32	30	62
i) No. of Schemes which have succeeded or have prospects of success	32	30	62
ii) Those which have failed or show signs of failure	25	25	50
iii) No. of cases where it is too early to judge success/failure	61	100	161
	118	155	273

Amending to SICA

From the ~~proceeding~~ recital of the BIFR's functioning certain conclusions. It is quite clear that some major amendments in the SICA are required. The main amendments are as follows: First, relates to the definition of sick industrial company. It has been proposed that the condition of 7 years registration of the company should be reduced to 5 years and the condition of cash losses for two successive years

deleted. This will ensure that the sick industrial company reports to the BIFR as soon as its networth is wiped out. Certain limited powers have also been sought in respect of those companies whose networth has been eroded to the ~~exten~~ of 50%. At present, the BIFR has no function in respect of such companies except to ensure that they call a special general body meeting to which they report the fact of erosion of ~~netwoth~~ to the extent of 50% or more. The intention behind the present provision is that shareholders would question the management about the reasons for erosion of networth and compel instituting of appropriate measures for wiping out the losses. It is not the intention of the BIFR to subject these companies to the comprehensive treatment prescribed in the Act. Briefly the limited powers sought are

power to:

(a) issue notice to the company calling for information as to the steps already taken or contemplated to be taken for checking further erosion or its networth or reversing the process of erosion:

(b) give directions to the company ~~and~~ Central Government, public financial institutions, scheduled banks etc. to take specified measures such as giving of reliefs, concessions or sacrifices, making of viability studies, preparation of a rehabilitation package etc. which may help in improving the performance of the company under a reasoned order:

(C) call upon the company to furnish periodical reports from the company as to its performance.

In other words, the intention is that the BIFR will act as a sort of catalyst to get all the concerned parties together in the case of the companies and try to expeditious the process of finding a solution to the difficulties responsible for the losses. We had tried this on a very limited scale and have been happy to find that the intervention of BIFR has been welcomed by such companies and that such intervention has led to positive results.

In addition, ^{or directions} it is necessary for the BIFR to have powers to issue directions to companies during the period that the company's case is under consideration and before a revival scheme is drawn up. Certain measures have been found in practice to be necessary during the interim period. We have found cases where while the matter is under consideration the company resorts to sale of its assets without the permission of the BIFR and also instances where erstwhile promoters sell off their shares at a favourable price to some other set of persons. Sale of assets should not be permissible except with the approval of the BIFR nor should changes of management take place surreptitiously and at prices which do not have the approval of BIFR.

The BIFR should not be constrained by the need to obtain the approval of banks and financial institutions to reliefs and concessions which are thought to be necessary. The

financial system applies rather narrow financial criteria. To our mind certain other aspects are of equal importance. The first is cost of rehabilitation as compared to the cost to the economy of setting up identical production capacity at a grass root site healthy unit. If the cost of creating new equivalent capacity at a different site there is justification for going beyond the guidelines of reliefs and concessions banks and the institutions are not willing to do so the BIFR's judgement must prevail; of course, ample opportunity being given to the former to represent their cases. (If dissatisfied with BIFR's decision, they can appeal to the AAIFR). Such instances will not be many and would obviously apply by and large to important industries producing basic goods, or to those cases where a very considerable amount of indirect employment is also involved. For example, there could be a case of a jute mill which not only employs labour directly but which obtains its raw materials from the hinterland from a large number of cultivators and whose closure would, therefore, adversely affect not only the directly employed workers but also the surrounding farming community. Another consideration to be kept in mind is whether in the banks and financial institution to recover their dues and if so what portion of their dues. The banks are particularly vulnerable because they have no cover for their liabilities. The FIs at least have a charge on the fixed assets of the sick units. The Reserve Bank of India has now given freedom to the banks to decide the extent of reliefs and concessions they are

willing to give without needing to secure the prior consent of the Reserve Bank of India, if they go beyond the parameters laid down by the RBI. Even within the guidelines of the parameters, specific consent of the banks and financial institutions is required to be taken by the BIFR. In order that the process of formulation of revival packages is completed with the utmost expedition it is suggested that banks, financial institutions, State and Central Governments should give full powers to BIFR without having to obtain their consent so long as the reliefs and concessions sanctioned by BIFR are within the parameters laid down by the RBI or within the policy parameters of the Central and State Governments. Anything beyond these, except for the banks and financial institutions, would require the specific consent of the State and Central Governments. Having created a body for exclusively dealing with the problem of industrial sickness is necessary that all the concerned parties shed some of their powers so that BIFR does not become the fifth wheel in the coach and render the process of revival dilatory. The speed of BIFR is today determined by the speed of response of the concerned parties. Even if one party delays its response, however, expeditious others may be, the whole process gets stalled and stalemate ensues.

Workers' Cooperatives

Mention needs to be made about workers' cooperatives. The Act enjoins BIFR to promote, wherever possible, workers cooperatives. We have succeeded in formulating schemes of

workers cooperatives in three or four cases. The best known among these is Kamani Tubes where the BIFR scheme was upheld against objections of the erstwhile promoters by the Supreme Court. There could have been many more cases of successful promotion of workers cooperatives. Unfortunately, some of the State Governments to whom suggestions were made in particular cases, where the environment was favourable, to take the initiative to support formation of workers cooperatives, did not respond and proved to be cold to our suggestions. It is an eloquent commentary on Governments which profess keen interest in workers' welfare and champion the cause of workers' participation that they do not find it possible to support workers cooperatives even where the BIFR finds such schemes eminently feasible. At the instance of BIFR, the IDBI has also set up a fund of Rs. 10 crores for giving advances to workers' cooperatives on soft terms to enable them to subscribe to the equity of the new cooperatives. There are certain preconditions to be satisfied; first as far as possible there should be only one union.

Secondly, intrinsically the unit should be viable.

Thirdly, the State government should be prepared to make a financial contribution to the equity and to support the efforts of the workers.

Fourth, workers should be ready to accept professionalisation of managements and a broad based Board of Directors, including their representatives.

We hope that State Governments will prove to be more enthusiastic in their response than has been the case far.

Reduction of Sickness :

Before passing on to consider an alternative mechanism for tackling the problem of industrial sickness, from the foregoing analysis it is possible to enumerate some of the steps that could be taken by different agencies which would have as their objective, reduction in the incidence of industrial sickness. These briefly are :

- i) Preparation of detailed techno-economic project reports and rigorous appraisal especially of such aspects as demand, market, raw materials, size of plant, availability of infrastructural inputs, trained labour force, technology etc.
- ii) Insistence on proper quality of management, delegation of authority within the organisation and professionalism.
- iii) Adequate margins to be provided for capital cost overruns.
- iv) Close monitoring of performance by banks and financial institutions.
- v) Insisting on industrial groups to play a larger role in the rehabilitation of their sick industrial units.
- vi) Promotion of workers cooperatives with additional reliefs and concessions being granted over and

above whatever is granted to the erstwhile promoters.

vii) At present, when workers even agree to rationalisation of the compensation payments are financed through loans from banks and financial institutions. Though in the medium term such rationalisation leads to savings it cannot be gainsaid that assumption of further loans imposes additional interest burden on an already sick unit. A better solution would be to institute a small cess on all industrial production units and with the proceeds to set up a fund from which disbursements could be made to retrenched workers. These disbursements will cover unpaid provident fund, gratuity and compensation for loss of employment. The fund could also finance retraining and relocation schemes for the retrenched workers. This measure would lessen the resistance of workers to rationalisation and tackle a human problem in humane manner. It will also lessen the burden on particular sick industrial companies. This suggestion was made by BIFR more than a year back to Government but we are not aware as to whether any action has been taken by Government. The suggestion is not that revolutionary because it only seeks to extend the application of the Textile Workers Rehabilitation

relevant

Fund to all other industries.

viii) In order to conserve as going units whichever industrial units are viable, without the past burden of their liabilities and to avoid the time consuming processes of liquidation and possible cannibalized sale of assets by the official liquidator, financial institutions and the banks should be vested with the same powers to physically seize assets and sell off industrial units which fail to meet their liabilities on the analogy of section 29 of the State Financial Corporation Act.

ix) The Act contains certain penal provisions to deal with ~~msifeasance~~, malfeasance and nonfeasance. This provision of the Act has proved to be difficult to apply because it is necessary to have satisfactory documentary evidence. Often the banks do state in evidence that there has been diversion of funds, sale of assets and appropriation of funds by the promoters etc. but apart from making such statements they are unable to back them up with hard evidence. Such evidence could be found by ordering detailed investigations by auditors and/or technical persons. Unfortunately, banks do not generally order such investigations. It has been impressed upon them that they should take care of this aspect and submit adequate evidence to the BIFR so that the

latter can institute proceedings under section 24 of the Act. It cannot be gain said that there are dishonest managements. If the system provides for prompt and summary punishment of such delinquents, incidence of industrial sickness could be drastically reduced. Today, as has been mentioned, it is the promoter who makes the least sacrifice. Often dishonest promoters also get away with their ill-gotten gains and so long as these two features persist there will be a positive incentive to make industrial units sick. In fact, it is significant that while promoters are anxious to get their units registered they are in no hurry to submit rehabilitation proposals or voluntarily give up their sick industrial units to new managements unless, of course, they get a very satisfactory deal officialy or unofficially. The judicial system and the financial system of the country do not provide for exemplary and summary punishment to such persons and so long as that is absent the basic problem of industrial sickness will continue to a much greater degree than it need be.

A New Mechanism

Single Agency to deal with Sick units

In the preceding analysis, suggestions have been made at various points for making the existing machinism of rehabilitation of sick industries much more effective with a

view to minimising sacrifices of public and private funds and with a view to expenditure decision making process as to whether a unit can be revived or will be wound up and if wound up try and preserve the industrial unit, if the demand for its product can lead to profitable operations shorn of past liabilities. Today all the financial institutions and the banks deal with sick industrial units. Based on our experience we felt that the time has come to consider an alternative and more streamlined mechanism. A separate appraisal-cum-banking institution should be created to deal with all cases of industrial sickness in large and medium industries. In other words, the existing banks and financial institutions should be divested of this responsibility. All industrial companies whose networth has been eroded by 50% or more would come within the ambit of this Organisation. This Organisation will have the following functions:

1. A strong multi-disciplinary professional group for diagnosis and for drawing up techno-economic viability studies. (Outside consultancy firms would be also made use of.) *Make at a case for govt. to fund!*
2. If it is felt that unit can operate at a profit in the coming years this organisation should assume responsibility for the past liabilities by effecting a one time settlement of the dues of financial institutions & Banks. In a one time settlement the financial system is generally willing to write off all interest liabilities provided the principal is paid. Since the interest burden of sick units is quite

substantial a one time settlement of a major portion of the principal, if not of the entire principal, should be the guiding criterion. So far as statutory dues and workers dues are concerned, the reliefs and concessions offered by the State and Central Governments will be taken into account. This organisation will also locate alternative managements and explore possibilities of merger of sick units with healthy units. For this purpose it will resort to large scale publicity. Once the BIFR determines that the unit is viable and can be revived and draws up a scheme of revival this new organisation would be responsible for providing both fresh term loans as well as fresh working capital to the of BIFR also monitor the implementation of the scheme. Where a viable solution taking into account restructured past liabilities is not possible it will carry out sale of assets for which it should be vested with the necessary powers, and deposit the sale proceeds in Courts so that the official liquidator can distribute proceeds to all the creditors in a manner laid down in the Companies Act. This organisation will function in close cooperation with the BIFR. If the principle is accepted, a detailed scheme could be worked out. The State and Central Governments should agree on their part that their concurrence would not be required to reliefs and concessions expected of them and incorporated in the rehabilitation schemes provides these are within their policy parameters.