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RESEARCH ARTICLE

A STUDY ON SICKNESS IN SMALL SCALE INDUSTRIAL SECTOR AND ITS CAUSES.

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Abstract

The small Scale Industrial sector is one of the most vital sectors of the Indian economy in terms of employment generation, the strong entrepreneurial base it helps to create and its share in production. In the developed countries of the world, prevalence of sickness in Small Scale industrial sectors is occur because of Lack of demand, shortage of working capital, undeveloped technological and managerial skills and has not been lifting experience. The phenomenon of industrial sickness also effects of unemployment, non availability of goods and services and prices high up. The shareholders also lose their hard-earned savings, creditors lose their cash and low growth in future prospects of business.

In India, The rapid growth and magnitude to industrial sickness is a serious issue not only for present time but also for all time to come during the next century. The crores of rupees blocked up in several of sick unit but it also affected the national growth of countries.

The growing industrial sickness in the country is causing great concern to the government and financial institutions because it is sucking the blood of the industry gradually and sapping economic vitality and thereby baffling all the useful programme of economic development. In fact industrial sickness pervades all around and is posing a very serious problem to different sectors of the economy.

It is generally found that a healthy unit may become temporarily or permanently sick and may recover its healthy stage. The factors affects on causes of sickness could be:

- a. Internal Factors or
- b. External Factors or
- c. Mixture of the both Internal & External Factors.

The internal factors may affect the particular unit only and this factors mostly affects are within control of management. The external factors usually affect all the units of the same line industrial group simultaneously. These external factors are may be beyond the control of the management.

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Introduction:-

Small Enterprises play a very significant role in terms of balanced and sustainable growth of the economy by way of employment generation, development of entrepreneurial skills and contribution to export earnings. These units produce a wide range of items employing traditional to state-of-the-art technology.

Over the years Indian SSI's have emerged as an important but vibrant sector of Indian economy. Today's market scenario is changing very rapidly across the globe and the same time it happening in India also. After the liberalization and WTO regime in India, the industrial sector goes to large and giant multinational companies also facing certain challenges. At the same time, it has opened up the world market and access is available to all the companies irrespective of their status or position. At the same time, these opportunities also open for the SSI sector for developing their future. But, SSI sector faced some problem when they are competing at global level. The SSI sector not properly handles these competitions. So, the result is lots of sick SSI is identified. So, for improving the global competitiveness and find causes is the area of discussion of this paper.

Objective of the study:-

1. To understand the meaning of the Small Scale Industry (SSI) as per the government of India
2. To understand performance of the SSI in India
3. To understand & study magnitude of sickness in SSI in India
4. To study & elaborate causes behind the sickness of SSI in India

Definition of small scale industry:-

As the criterion for defining the small enterprise sector, most of the countries adopt the level of employment and sales turnover. In India, The defining small enterprise sector in terms of investment in plant and machinery under the enactment of Micro, small and medium enterprises development act 2006. In this act, paradigm shift and includes all business enterprises and not only manufacturing units but also service enterprises. (Earlier most service enterprises were not covered under the definition of SSI). In India, The enterprises are now grouped under two major heads namely manufacturing and service enterprises.

As per RBI the New definition of Small Enterprise is

The term "Small Enterprise(s)" used in the report refers to "Small Scale Industry" wherever it refers to the historical data, as it came into existence only after enactment of the MSMED Act. At all other places, it has the same meaning as defined in the Act.

Table No.1:- Investment criteria for small enterprises.

	Investment in plant and machinery/equipment (excluding land and building)	
	Manufacturing Enterprises	Service Enterprises
Micro	Up to Rs. 25 lakh	Up to Rs. 10 lakh
Small	More than Rs. 25 lakh and up to Rs. 5 crore	More than Rs. 10 lakh and up to Rs. 2 crore
Medium	More than Rs. 5 crore and up to Rs. 10 crore	More than Rs. 2 crore and up to Rs. 5 crore

The Office of the Development Commissioner (Small Scale Industries) conducted two censuses of registered SSI units prior to the Third Census. The First Census was conducted in 1973-74 in respect of 2.58 lakh SSI units registered up to 30-11-1973. The reference year for this Census was calendar year 1972 in respect of units not maintaining accounts and the actual accounting year closing between 1-4-1972 and 31-3-1973, for those units maintaining account. Some information was also collected for 1970 and 1971. During this Census, only 1.4 lakh units were found working. The Second Census was conducted during 1990-91 in respect of 9.87 lakh SSI units registered up to 31-3-1988. The reference year for this Census was financial year 1987-88 in respect of units not maintaining accounts and the actual accounting year closing between 1-4-1987 and 31-3-1988 for those units maintaining accounts. During this Census, only 5.82 lakh units were found working.

The data generated by the Census with the passage of time had lost its significance and it required immediate updating to achieve its purpose. Therefore, for that purpose, the Third all-India Census was conducted during 2002-

03 for the possible proximate reference year, i.e., 2001-02. **“The third census of Small Scale Industries will be conducted by the Ministry of SSI & ARI after a gap of 12 years. This census would cover sickness and its causes”.**

The Hon'ble Prime Minister approved the recommendations of the Group of Ministers and he announced the decision to conduct Third Census while inaugurating the National Conference of Small Scale Industries at Vigyan Bhawan on 30-8-2000. Excerpts from the speech of the Hon'ble Prime Minister are given below.

"The last Census of Small Scale Industries was conducted 12 years ago. For effective policy-making and implementation, we need to update our data. Therefore, we have decided to go in for a fresh census that will cover, inter-alia, the incidence of sickness and its causes. I request industry associations to cooperate with the census authorities so that a true picture emerges."

In the Third Census, The composition of the total SSI sectors into registered and unregistered. SSI sectors in terms of these characteristics and the number of sick/ incipient sick units is given in the following table.

Table No. 2:-

Sr. No.	Characteristics	Total SSI Sector	Registered SSI Sector	Unregistered Sector
1.	No. of units having outstanding loan as on 31-3-2002	7,77,639 (100 %)	2,76,333 (35.5 %)	2,82,267 (59 %)
2.	No. of units having outstanding loan with institutional sources as on 31-3-2002	4,78,404 (100 %)	1,96,137 (41 %)	58,338 (56 %)
3.	No. of sick units (with erosion of net-worth by more than 50 % or delay in repayment of institutional loan by more than 12 months)	1,04,769 (100 %)	46,431 (44 %)	5,92,899 (79 %)
4.	No. of incipient sick units (decline in gross output over three consecutive years)	7,50,922 (100 %)	1,58,023 (21 %)	46,887 (55 %)
5.	No. of sick units as per RBI criteria, i.e., those that are sick among units having outstanding loan with institutional sources	85,290 (100 %)	38,403 (45 %)	6,30,568 (77 %)
6.	No. of sick/ incipient sick units (with erosion of net-worth by more than 50 % or delay in repayment of institutional loan by more than 12 months or decline in gross output over three consecutive years)	8,22,896 (100 %)	1,92,328 (23 %)	5,01,306 (64.5 %)

Sources: Micro, Small and Medium Enterprise

In the third Census, the units permanently registered up to 31.3.2001 were covered on complete enumeration basis. A total of 22, 62,401 units were surveyed. Out of these, 13, 74,974 units were found to be working and the remaining 8, 87,427 units were found closed. Thus, the number of working units works out to be 60.77 % and those of closed 39.23 %.

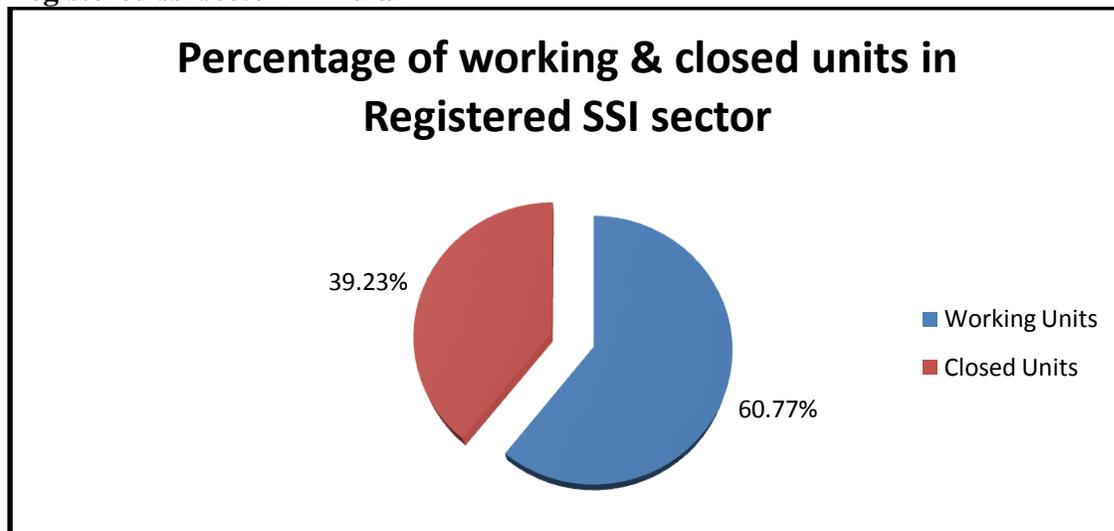
Registered ssi sector in india:-

Figure 1

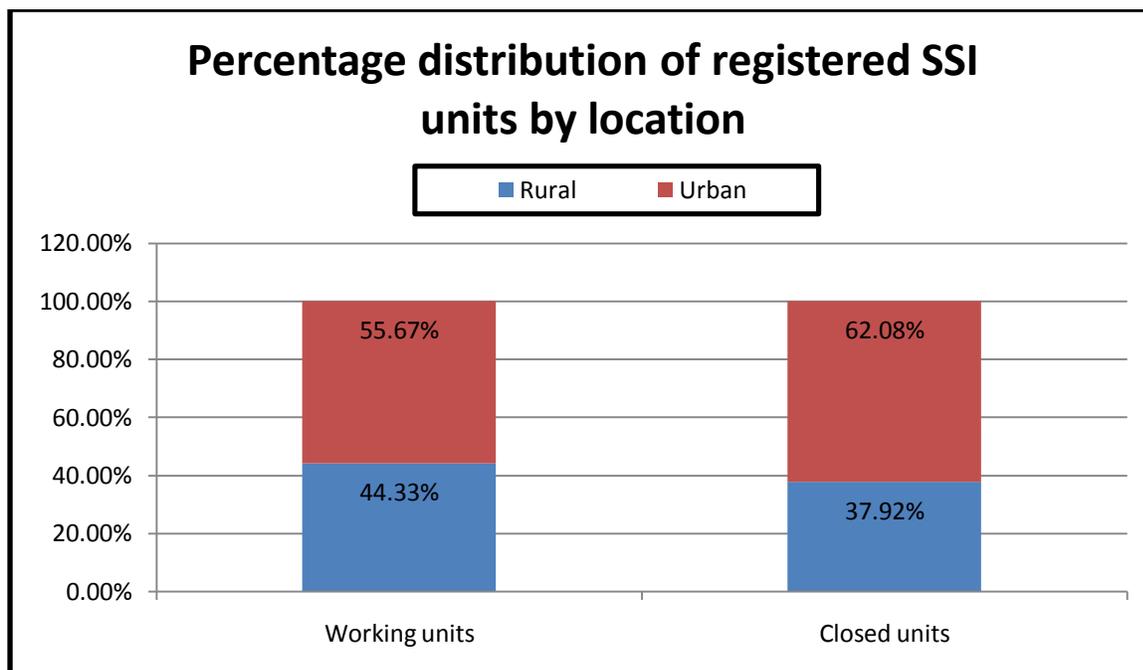


Figure 2

Source: Micro, Small & Medium Enterprise (MSME)

As per the MSME data, the registered working units of SSI were located in urban area are 55.67% and in rural area are 44.33%. In Urban area, closed units are 62.08% & in rural area are 37.92%. In urban area, closing percentage is high as comparative to rural area and vice-versa. High transportation cost, Non availability of raw material these are main reasons behind the closing percentage is high in urban area.

Unregistered ssi sector in india:-

The total size of the unregistered SSI sector is estimated to be 91,46,216. This comprises 38.75 % SSIs and 61.25 % SSSBEs. About 57 % of the units were located in rural areas and 43% of the units were located in rural areas.

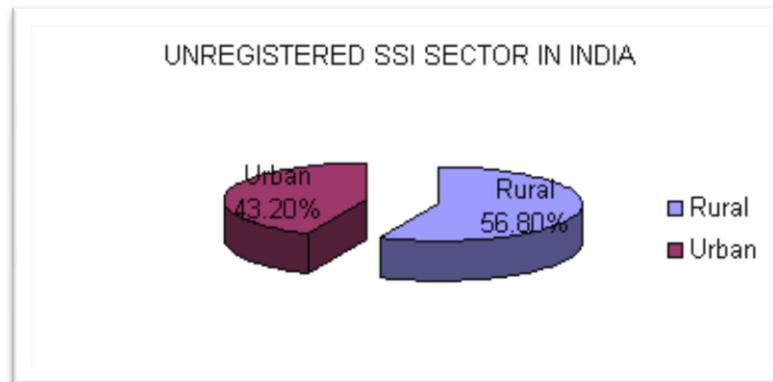


Figure 3

Sickness in SSI sector:-

The definition of sickness in SSI sector has been change over the time. The Reserve Bank of India (RBI) was instrumental in appointing Committees from time to time to look in to the affecting factors on the Sickness of Small Scale Industrial sectors.

The latest definition of Sickness given by the Working Group on Rehabilitation of Sick Units set up by the RBI (Kohli Committee) is given below.

"A small scale industrial unit is considered as sick when

- a. if any of the borrowal accounts of the unit remains substandard for more than six months, i.e., principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year will remain unchanged even if the present period for classification of an account as substandard is reduced in due course;
- b. There is erosion in the net worth due to accumulated losses to the extent of 50 per cent of its net worth during the previous accounting year, and
- c. The unit has been in commercial production for at least two years."

Sick industrial companies Act, based on Tiwari recommendations in year 1987.

Definition of Sick industry:

- Does not apply to micro and small enterprises.
- applies to medium and large scale companies
- registered under companies act, for minimum 5 years
- making losses in this year and last year
- Has eroded its entire net worth / paid up capital.

What are the 'benefits' of becoming of a SICK company? – Well Government provides financial help or helps to shut down the unit!

- BIFR= board for industrial and financial reconstruction
- statutory body: setup under sick industries act
- Quasi-judicial body: decides whether a company is sick or not. Its decision is final and binding.
- if a loss making company is declared "SICK", it's given three options:

1. time extension to make net worth positive
2. "revival" package (from SIDF fund money from SIDBI)
3. Wind up the company.

Magnitude of sickness in the SSI sector in country:-

The incidence of sickness in the small scale industries sector has declined from the year 1999to 2008, as per the data compiled by the RBI from scheduled commercial banks. The number of sick units in the country has come down from 158226 as at the end of March 1987 to 85187 as at the end of March 2008 and then in 2013 (Provisional) has

become high up to 249903. The total sick SSI units, , with the amounts outstanding against them for years ending March 1987 to 2013 were as given in following table:

Table No. 3:-

Year	Sick SSI/ MSE		Year	Sick SSI/ MSE	
	Units	Amount Outstanding		Units	Amount Outstanding
2013	249903	127.99	2000	304235	46.08
2012	85591	67.90	1999	306221	43.13
2011	90141	52.11	1998	221536	38.57
2010	77723	52.33	1997	235032	36.09
2009	103996	36.19	1996	262376	37.22
2008	85187	30.82	1995	268815	35.47
2007	114132	52.67	1994	256452	36.80
2006	126824	49.81	1993	238176	34.43
2005	138041	53.80	1992	245575	31.01
2004	138811	52.85	1991	221472	27.92
2003	167980	57.06	1990	218828	24.27
2002	177336	48.19	1989	186441	22.43
2001	249630	45.06	1988	217436	19.80
			1987	158226	15.42

1. Data for 2013 are Provisional.
2. Data for 1987 and 1988 relate to end-June.
3. Data for 1989 relate to end-September.
4. SSI stands for Small Scale Industry and MSE stands for Micro & Small Enterprises.
5. The data for the period up to 2007 is of Small Scale Industries (SSI). Subsequent to 2007, data with reference to Micro and Small Enterprises (MSEs) are being compiled.
6. The definition of sickness was revised with effect from November 01, 2012.

Reasons for sickness/ incipient sickness:-

It is important to that understand the reasons behind the sickness in Small Scale Industries. The Small Scale Industries major role played for improving the economy of the country.

There are many and varied reasons for sickness in SSI sector. Some of these are:

- Inadequacy of working capital, delay in sanction of working capital and time gap between sanction of term loan and working capital.
- Poor and obsolete technology
- Problem related to availability of raw material
- Inadequate demand and other marketing problems
- Erratic power supply
- Labour problems
- Infrastructural constraints
- Poor Management
- Inadequate attention to R&D
- Diversion of resources
- Inability of the units to face growing competition due to liberalisation and globalisation

It is important that to know the reasons for sickness for the formulation of better policy. The above one or more reasons are affected on SSI which result comes that the high amount will be outstanding, closed the unit & also results affect on economy crisis.

The following table indicates the reasons given by the units suffering from sickness/ incipient sickness.

Table No. 4:-

Sr. No.	Reason for sickness/ incipient sickness	Proportion of sick/ incipient sick units*		
		Total SSI Sector	Regd. SSI sector	Unregd. SSI sector
1.	Lack of demand	66 %	58 %	69 %
2.	Shortage of working capital	46 %	57 %	43 %
3.	Non-availability of raw material	12 %	12 %	12 %
4.	Power shortage	13 %	17 %	12 %
5.	Labour problems	5 %	6 %	4 %
6.	Marketing problems	36 %	37 %	36 %
7.	Equipment problems	11 %	9 %	12 %
8.	Management problems	4 %	5 %	3 %

Source: MSME

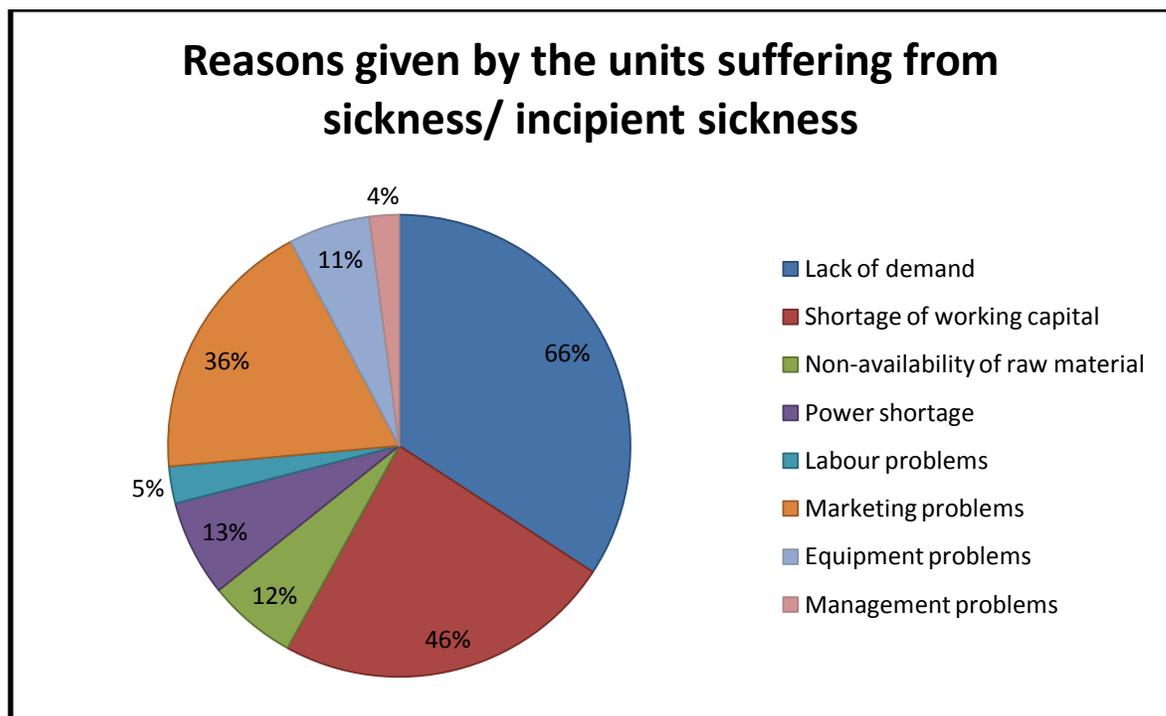


Figure 4

As per the MSME, above statistical data shows that 66% SSI sectors are Sick/incipient sick which of this is a high percentage as comparatively other sickness reasons. The second main problem is 46% facing shortage of working capital in SSI sector and 36% facing marketing problems. The Lack of demand & Shortage of working capital are both reasons quite interrelate to each other. If SSI sectors add some innovation in their business so then may be Demand will be increased. The SSI should have to used well equip modern techniques. Modern techniques required less manpower & they give to much more productivity.

Conclusion:-

The small Scale Industrial sector is played important role for the economy in terms of employment generation, the strong entrepreneurial base it helps to create and its share in production. The competitor of the small scale industries is not only from medium & large industries but also from multinational industries. It is difficult to SSI to maintain the quality standards, technological skills, financial creditworthiness, managerial & marketing capabilities of large scale & multinational industries.

The main reasons for sickness/incipient sickness in both the registered & non-registered SSI sectors are '**Lack of Demand**' & '**Shortage of working capital**'. The new ideas generation and innovation are required in SSI sector. The rehabilitation of sick SSI units is very important and for that purpose revision of guidelines making is very much required. That guideline makes them transparent and non-discretionary for the rehabilitation of current sick and potentially viable SSI sick units.

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