A Study on Industrial Sickness in Small Scale Sector in Warangal District

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ABSTRACT

Small Scale Industries occupy inevitable position in the country’s economy. It is a major contributor to the economy in terms of employment generation, infrastructure development and productivity. Government of India has taken many steps to promote Small Scale Sector from the second five-year plan (1957-1961) to till now because it plays vital role in regional economic balance. It contributes 8% of the manufacturing GDP and 31% of the GDP from the service sector. It is a boon to the economic development of the country because it creates many investments as well as employment opportunities to the people. SSIs (Small Scale Industries) provide employment to nearly 120 million people and also contribute around 40% of the exports from India. SSIs are affected by industrial sickness problem. It creates hurdle to growth levels of the economy. To warfare this problem it is necessary for the organization to identify the reasons, and preventive measures. The present study gives the concept of sickness in small scale companies, reasons and revival measures with reference to Warangal District in Telangana State of India

Keywords: Economy, Industrial Sickness, Small Scale Sector, Revival Measures

1. Introduction

Indian business industry divided into three categories which consist of large scale, medium scale and small scale sector. According to the MSME Development Act 2006 business enterprises can be classified into two categories. Enterprises are engaged in manufacturing of goods and providing services to the various customers with the motive of profit. These two categories have been further classified into micro, small and medium enterprises based on the investment in various assets. The enterprise investment limit is Rs. 5 crores to Rs. 10 crores it termed as medium enterprise, if the investment limit is Rs. 25 lakh to Rs. 5 crores, it is called small enterprises and finally the investment limit is below Rs. 25 lakhs it is treated as micro enterprise. These criteria may change from manufacturing concern to service based enterprises.

According to the MSME annual report 2016, This Small Scale Sector comprising of 36 million units and it has more than 6,000 Products contributes around 8% to Gross Domestic Product and 45% to the total manufacturing output and 40% to the exports from the country. But this sector is suffering from the concept of industrial sickness. Sickness in companies is extremely sensitive issue in our country. It makes unfavorable issue to industrial health and the economy also. Sickness covers a wide range of units in small, medium and large scale companies not only in India but also throughout the world. It is a situation that shows negative impact on organizations, accessibility of merchandise for all ventures. The investors and banks lose their future return and it makes organization to be weak. Financial institution, Governments as well as management should focus more on revival of sick companies.

Industrial sickness is defined in India as an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year. The sick industrial companies (Special provisions) Act, 1985, as amended in 1993 defines sick industrial company as an industrial company (being a company registered for
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not less than five years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth. The State Bank of India has defined a sick unit as one “which fails to generate an internal surplus on a continuous basis and depends for its survival upon frequent infusion of funds.”

The Reserve Bank of India has defined a sick unit as one “which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as, current ratio is less than 1:1 and there is worsening trend in debt equity ratio.” According to MSMED Act 2006, Sickness means any of the borrow account of the enterprise remains NPA for three months are more or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year.

2. Review of Literature

Dr. Sardar Gugloth, N.B Kalyan Kumar (2011) explained that sickness in small and medium organization in their article. Different industries are influenced by the industrial sickness in many ways. They explained various causes why the companies become sick and remedies of industrial sickness for various small scale industries in India. Sree Krishna and Hare Prasad (2015) gave explanation on symptoms of sickness like slow movement of stock, low level of turnover, decrease in profitability position, frequency violation of terms and condition etc. and also they found that other reasons which effect the companies are creation of excess capacity, under-utilization of installed capacity, improper production planning and shortage of raw materials. Kuldeep Singh (2015) elaborated internal and external reasons of sickness with the support of concept of sickness and various remedies for getting out of industrial sickness in small and medium scale sector in India. Swathi Jain (2014) gave view on small scale with respect of functional areas of sickness which are related to marketing, production, finance and infrastructure. High cost of production, lack of proper demand forecasting methods, obsolete machinery, lock of funds and complicated procedure of fund lending are the reasons of industrial sickness in small scale sector companies.

Sarita Agarwal & Heena Upadhyaya (2014) mentioned that competitiveness in the Indian market is the main reason for the sickness in small scale industry. The external reasons also mentioned here like changes in govt. policy and improper or non-availability of raw materials etc. From the above reviews we can observe that industrial sickness in small and medium scale industry is a contemporary issues at present. Identification of sickness in the all the regions give us idea about growth level. Based on this we take try to find out reasons and then we can take revival measure for those sick companies. There are many sick companies prevailing in Warangal district in newly formed Telangana State. A theoretical explanation is attempted for the sickness in small scale sector which creates hurdle to investment and employment opportunities

3. Objectives

1. To know the existing position of industrial sickness in small scale industries especially in Wanrangal District.
2. To study the reasons of sickness in small scale sector
3. To suggest revival measures for industrial sickness in SSI

4. Methodology

The present study is based on the sources from MSME Annual Reports, RBI reports, Data from Industrial District Centre, Newspapers, Journals and various other websites for this research. It is completely based on secondary sources.

5. Sickness in Small Scale Sector in India

Small scale industrial organizations assume a note worthy part trendy advancement in frugality. It gives boost to the economy to do business as well as enhancement of productive works for export’s income. Small Scale enterprises created 48.86 Million tons of output in 2014-15. It created 111.43 million of employment openings to the urban and rural areas of the country in 2014-15. Small Scale Company gave exports worth of 8495.73 Billion Rupees in 2015-16. The following table is explained number of small scale and medium scale companies that became sick at the end of 2015. As per the RBI, the Small Scale Company in sick and it has been increasing every year i.e., 1993 to 2015 it been increased from 238176 to 528300 (221.81%)

6. Sickness in Small Scale Sector in Warangal District

Warangal is second biggest city in the Telangana after Hyderabad. The total MSME registered units are 8284 with the investment of Rs. 205654.89 Lakhs which provide nearly 64107 employment opportunities to the people. It created infrastructural facilities and free access of available resource to the full extent for the economic development. These all are leads to improve the
standard of living. But the industrial sickness shows adverse impact on the growth of the business sector. Sickness in the small scale sector has been increasing massively. The details of the sickness in SSI were mentioned in the following table.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Area</th>
<th>No of Sick Companies</th>
<th>S.No</th>
<th>Area</th>
<th>No of Sick Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gorrekunta</td>
<td>362</td>
<td>13</td>
<td>SRR Thota</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Grain Market</td>
<td>84</td>
<td>14</td>
<td>Shambhunipet</td>
<td>3</td>
</tr>
<tr>
<td>3.</td>
<td>GundlaSingaram</td>
<td>84</td>
<td>15</td>
<td>Station Road</td>
<td>1</td>
</tr>
<tr>
<td>4.</td>
<td>Janpeerlu</td>
<td>3</td>
<td>16</td>
<td>Sthambhampalli</td>
<td>2</td>
</tr>
<tr>
<td>5.</td>
<td>Kareemabad-I</td>
<td>241</td>
<td>17</td>
<td>Tailors Street</td>
<td>1</td>
</tr>
<tr>
<td>6.</td>
<td>L B Nagar</td>
<td>85</td>
<td>18</td>
<td>Yadava Nagar</td>
<td>2</td>
</tr>
<tr>
<td>7.</td>
<td>Matwada</td>
<td>102</td>
<td>19</td>
<td>B.R Nagar</td>
<td>1</td>
</tr>
<tr>
<td>8.</td>
<td>Pochammamaidan</td>
<td>358</td>
<td>20</td>
<td>Balasanthanagar</td>
<td>1</td>
</tr>
<tr>
<td>9.</td>
<td>Ramannapet</td>
<td>2</td>
<td>21</td>
<td>Beet Bazar</td>
<td>2</td>
</tr>
<tr>
<td>10.</td>
<td>Ramollawada</td>
<td>70</td>
<td>22</td>
<td>Christian Colony</td>
<td>1</td>
</tr>
<tr>
<td>11.</td>
<td>Rangampet</td>
<td>6</td>
<td>23</td>
<td>Desai pet</td>
<td>1</td>
</tr>
<tr>
<td>12.</td>
<td>Reddypalem</td>
<td>4</td>
<td></td>
<td>Total</td>
<td>1417</td>
</tr>
</tbody>
</table>

Source: District Industrial Centre, Warangal, Telangana State

Total number of sick companies are 1417 out of registered small scale companies 8284 i.e. 17%. This is a huge number within single district of a state which has recently formed state. It shows slow development in the industrial growth activities. There are many reasons for these enterprises become sick which divided into two categories i.e. internal and external.

7. Internal Reasons for sickness
   1) Faulty Initial Planning
   2) Financial Problems
   3) Technological Reasons
   4) Production related problems
   5) Poor management

Faulty Initial Planning
   Selection of faulty area of a company may lead to its failure. In the present situation the place of modern plant location requires infrastructural facilities, the complete industrial unit will face challenges. Another fault is absence of appropriate demand forecasting for the items to be sold. Some small scale companies begin production without making a market survey and dive into troubles later.

Financial Problems
   A deficiency of working capital gives off an impression of being a major issue. Working Capital gap creates adverse effect on profitability position of the firm. Inappropriate allocation of funds and poor utilization of assets make the firms inconvenient and turn these as sick units.

Technological Reasons
   Many SSIs resort outdated equipments and methods because of shortage of funds. Consequently they face problems of quantity and quality of goods produced as well as high cost of production. They find it difficult to compete with large industries producing similar products or other units from the SSIs. And small business people can't bear to take directions from specialists in picking proper machinery. An improper decision of technology and unsuitable technology both made healthy companies into sick companies.
**Production related Problems**

Improper inventory management, inadequate quality control as well improper process planning, defective plant location, layout design and poor material handling methods are the reasons for increase in the cost of products. In the area of inventory management very little scientific concepts are employed with the result that thumb rules rather than established scientific norms are used for stocking of raw materials and finished goods. As a result, carrying cost increases which leads to huge amount of manufacturing expenses decrease the profits.

**Poor Management**

Wrong or faulty managerial decision towards production, marketing, finance, personnel and poor control can ruin the business. At the same time lack of proper integration in managerial functions like planning, organizing, directing and controlling also the reason of the unit become sick.

8. **External Reasons for sickness**

1) Transportation Problems

2) Power Cuts

3) Recession and Govt. Policy

**Transportation problems**

Effective transportation system is always a key to success of the business organizations. Lack of proper transportation facilities creates a big gap between the demand and supply which leads sickness in the companies.

**Power Cuts**

Many organizations confront with power cut problem again and again. These power cuts are forced by the state government as the era of force is impressively lower its real necessities. Drought situations during many years in a number of states additionally irritated the issue and intense power lack brought about regular power cuts.

**Recession and Govt. Policy**

General recessionary patterns in the market unfavorably influence the interest for the majority of the products bringing about unsold stocks and misfortunes to individual units. Items with high costs like autos, tractors and so on depend on simple accessibility of credit to purchasers. In the event that credit is controlled, the purchasers are not ready to arrange back and thus the requests for such items endure and at last such assembling units become sick. Sometimes sudden changes in the government policy or unfavorable changes in the government policy like imposition of taxes, restrictions on import/exports can turn the healthy units into sick unit.

9. **Consequences of sickness**

1) The organizations are captivating assistance from the various financial institutions and banks for enhancing funds for their operations. The funds turned non-performing assets when companies become sick. It gives negative impact on banks and financial institutions.

2) The companies are commonly connected various further modern companies through in reverse and frontward connection. Industrial sickness with one organization is probably going to influence unfavorably on various other units.

3) The central, state and local government raises income from industrial units by method for different taxes. Industrial sickness results loss of revenue to the Government.

4) In a developing economy like our own, the resource are scare. If the scare resources are blocked it becomes wastage.

5) Another most important matter is unemployment. Workers lose their jobs on account of closure of sick units. It is most risky socio economic problems of the nations. Sickness creates unemployment problems to the nation.

6) Closure of sick units makes a psychological effect on investors. The failure of a unit acts as disappointment on prospective investors. Such industrial environment is good for the future development.

7) The effect of industrial sickness on financial institutions is to make their operation into less productive. Profitability of banks is decreased by writing off interest and loan, revenue losses due to reduced interest rate and non-availability of funds.
10. Revival of Sick Small Scale companies

The Government of India and RBI has set up working committee to revival of MSME in all over the India. The committee suggested that various measures for revival of the sick companies based on the reasons of the sickness. The steps are as follows.
1) As per RBI guidelines viable companies will be considered for revival/rehabilitation purpose as per MSME definition.
2) The banks will provide a package for such viable companies. This package will be implemented within six months from the date the unit is declared as sick. It will be based on size of the company in terms of investment.
3) The concession and relief is to be given for revival of potentially viable sick MSME unit as under
4) Interest on working capital: Interest rate is 1.5% below the base rate, wherever applicable
5) Funded Interest Term Loan: Interest free
6) Working Capital Term Loan: Interest 1.5% charged or wherever applicable
7) Term Loan: Concessions in the interest to be given not more than 2%
8) Contingency loan assistance: the concession rate allowed for working capital.
9) Promoter’s should contribution is 10% for micro units and 20% if it is a small unit. Promoter should bring their half of their contribution immediately within six months.
10) Banks will undertake a statement that would be recouped future profit/cash accruals from the unit.

MSME is implementing many schemes to address various issue of sickness in small scale sector. They are

1) Up-gradation of technology and improve process and design facilitated through National Manufacturing Competitive Programme and Credit Linked Capital Subsidy Scheme.
2) Financing for raw material purchase through raw material purchase scheme with the help of national small industries corporation limited
3) Facilitate infrastructure up-gradation and setting up of common facility centres through The Micro and Small Enterprises Cluster Development Programme
4) The credit guarantee fund scheme for small companies facilitate collateral free credit facility to new and existing small companies
5) EXIM bank set up $500 million fund to assist export oriented MSME with long term foreign currency loans.
6) To provide development and diffusion of innovative technology in the Small Scale Companies the Small Industries Development Bank of India and German Government’s Development Bank came to understanding for providing concession loans and technical assistance
7) There is scheme for Rehabilitation of Industrial Sick Unit. Under this potentially viable units including cottage and village industries, fulfilled the definition of sick MSE are eligible for drawn up of a package

11. Conclusion

A small scale company is considered sick if it has accumulated losses equal or exceeds 50% of its net worth in the immediately preceding years. The signal of sickness are quite early in the form shortage of liquidity, it is unable to meet debt obligations and worsening its financial position. The reasons may be internal or external or combinations of both but identification of sickness at early stage will solve half of the problem. Many precautionary measures are taking by the state government and central government along with various banks and financial institution to revival of such sick units. It is a good sign for the economic development.

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