

# **Causes and Remedies for Sick Industries in Uttar Pradesh**

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## **ABSTRACT**

Industrial Sickness creates lot of economic problem in most of the Asian Countries during last ten years. It is a common phenomenon in both public & private sectors. Which attracts the investigators lot. Industrial sickness is a popular study in social and economic.

## **Introduction**

The public enterprises are playing a major role in the planned economic development of India. They act as an important tool for the infrastructural development of the country but independence and now day-by-day sickness in Public Enterprises has become a national issue necessitating to find out the causes of sickness in public enterprises along with the possible cures. Sickness in industry is a national problem weather it is in private sector or in public sector. The ill effects of sickness in industrial companies such as loss of production, loss of employment, loss of revenue to the central and state governments locking up of ingestible funds and financial institution etc. are of serious concern to the society at large.<sup>1</sup> Industrial sickness is a universal phenomenon. It is found everywhere in public and private sector, large and small sectors. Industrial sickness creates lot of economical and social problems. Industrial sickness affects owners employers and creditors and also causes wastage of national resources and social unrest in public sectors where public money is directly involved. It is therefore important to find out the causes and cures of industrial sickness.

## **Meaning of Industrial Sickness and Review**

The various compartments associated with an industry need different outlooks about the industrial sicknesses. The public enterprises have been assigned a commanding role in the economy of developing nation as an instrument of social changes and as a tool for accelerating development. Different authors have defined sickness in varying ways. Some of them are discussed here in. The term sickness

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has been expressed in a variety of ways. (Nadkarni<sup>2</sup>, 1983), To a layman, a sick unit is one which is not healthy. To an investor it is one which skips dividends. To an industrialist, it is a unit which is making losses and tottering on the brink of closure. To a banker, it is a unit which has incurred cash losses in the previous year and is likely to repeat the performance in the current and following years.

According to Khandewalla<sup>3</sup> sickness can be equated with a loss situation or 80% or more decline in profits in a year. According to Reserve Bank of India<sup>4</sup> it is one that incurred a cash loss for one year and in the judgment of the tending banker, was likely to continue incoming losses for the current year as well as in the following years and the unit had an imbalance in its financial structure, such as current ratio on being less than 1:1 and there was a worsening trend in debt equity ratio The Reserve Bank of India distinguishes a “sick” from a “weak” unit, the two representing “shades” of sicknesses. The weak unit has the following characteristics according to the RBI. (a) accumulated losses being 50% or more of its peak net worth in the immediately preceding five accounting years; (b) Current ratio being less than 1:1; and (c) There being cash loss in the immediately preceding accounting year.

The Indian term lending financial institutions tend to consider a unit as sick, if it has consecutively defaulted for four half-yearly loan and interest installments due to the financial institutions, has made cash losses during the previous accounting year, is also likely to incur cash loss in the year, its net worth has been eroded by 50 per cent or more and has mounting arrears of statutory and other liabilities and also shows persistent irregularity with regard to its credit limits with banks. In the year 1995, Anants<sup>5</sup> described industrial sickness as the extreme state where accumulated losses exceed the net worth.

### **Symptoms of Sick Industries**

Chawala<sup>6</sup> (2003) identified some symptoms of industrial sickness and these include (a) frequent liquidity problems, fall in sale/profits, rapid increase in debtors, reduced working capital, etc (b) unfavourable market development (c) high managerial turnover (d) labour unrest (e) rise in staff and customers complaints and failure to respond such complaints (f) declining morale of the employees (g) lack of planning and strategic thinking. (h) Strike, lockout etc.

### **Reasons for Industrial Sickness in India**

Industrial units may become sick at different stages and due to different reasons. Indeed, some industries are born sick, some achieve sickness and some have sickness thrust upon them. Study conducted by the Institute of economics, Hyderabad found that 50 per cent of the dead units closed within three years of opening. This proves

that these industries never had any reasonable survival prospect right from their births.<sup>7</sup> There are many reasons<sup>8</sup> for the birth sick units in public enterprises such as (1) establishment of units without the prior survey of market, (2) establishment of units in public sector which have competition with private sector (3) units of consumer items in the field of public sector (4) wrong selection of the project and faulty planning and (5) financial management may also causes the birth of sick units. Many new units have been found to be underutilized and the strains of under capitalization become evident when the unit become operational. In case of some companies, the heavy investment in non productive capital assets. Problems also crop up due to inadequate provisions for contingencies faulty funds flow and cash flow estimate etc.

Sickness may arise from locational problem also. It has been observed that high technology based units are established in areas without skilled labour and supporting infrastructure. Industries based on imported raw materials are founded in regions without adequate transport and communication system<sup>9</sup>. The industrial sickness is mainly part of the economic policy. To an extent, industrial sickness is a part of the process of industrial change, requiring economic adjustments. Even in industrialized economics, sickness is a normal feature due to technological progress, changing markets and products<sup>10</sup>.

In case of public sector sickness, it is difficult to take any decision against the sickness due to political logics. In the case of private sector enterprises, several analysis made earlier have concluded that management deficiencies and mis-management account for the majority of cases of sickness. Industrial sickness creates problems of wasting financial resources, puts a burden on banks and also enhances the public expenditure. The information compiled by Reserve Bank of India<sup>11</sup> from scheduled banks over the years is shown in Table 1 & 2.

**Table 1**  
**Industrial Sickness in India – As on March 2001**

<i>Sl. No.</i>	<i>End</i>	<i>Large &amp; Medium</i>	<i>Small</i>	<i>Total</i>
1.	Dec-1980	1401	23149	24550
2.	Sept-1992	2427	233441	235868
3.	Mar-1996	2374	262376	264750
4.	Mar-1997	2368	235032	237400
5.	Mar-1998	2476	221536	224012
6.	Mar-1999	2792	306221	309013
7.	Mar-2001	3317	249630	252947

Source: RBI.

**Table 2**  
**Industrial Sickness in India-Outstanding Bank Credit**

<i>Sl. No.</i>	<i>End</i>	<i>Large &amp; Medium</i>	<i>Small</i>	<i>Total</i>
1.	Dec-1980	1502	306	1808
2.	Sept-1992	9241	3346	12587
3.	Mar-1996	10026	3722	13748
4.	Mar-1997	10178	3609	13787
5.	Mar-1998	11825	3857	15682
6.	Mar-1999	15150	4313	19463
7.	Mar-2000	17705	5951	23656
8.	Mar-2001	21269	4506	25775

The Reserve Bank of India conducted a survey<sup>12</sup> in the year 1979 and considered the following as the main causes of sickness. (1) Internal Cause-It includes mis-management, management deficiencies including diversion of funds, infighting, lack of marketing strategy etc. Out of 378 sick units, 197 units were suffering with sickness due to internal causes. (2) Initial Planning and Technical Drawbacks-Obsolete model and non up gradation is become a main causes of industrial sickness 145 units are sick due to lacking of the initial planning and technical reasons (3) Sickness due to labor trouble-Industrial unrest may create a lot of problems but according to the RBI Survey, the problem of sickness due to labor trouble is only in 2 per cent sick units. (4) Market Recession. Improper market conditions fluctuation in economy, unusual decrease in demand or competition may be important reasons for industrial sickness. 23 per cent sick units are suffering with market recession and (5) Other Reasons-It include power cuts, shortage of raw material etc. 34 units of 378 units had become sick due to this reason alone.

An analysis of sick cases referred by the Board of Industrial and Financial Reconstruction<sup>13</sup> (BIFR) has shown that sickness has arisen due to the following reasons indicating their share in contributing total sickness. "(a) Managerial problems 20 per cent, (b) Production and technical problem 21.4 per cent, (c) Market problem 15.3 per cent, (d) Financial problem 34.5 per cent, (e) Government policies 8.8 per cent."

Some other reasons for sickness cited by companies at the time of registration with BIFR are cheaper imports due to reduction in import duties, growing competition from multinational companies with wider market access and quality product, competition from unorganized sectors which can offer cheaper products due to lower taxes and overhead charges, inadequate power supply, high interest cost of finance, etc. However, in public enterprises, the government policy plays an important role and it may become a big cause for sickness. Industrial growth has actually been accelerating along side trade liberalization ever since 1992. It rose

from 0.6 per cent in 1991-92 to 12.7 per cent in 1995-96. Yet 1995 was the year when the number of sick units reached 2,71,206 (March 1995). Such units accounted for 13.3 percent of total bank advance to industry. So the claim that liberalization brought sickness to some must be weighed against the fact that it strengthened the majority<sup>14</sup>. There are several reasons for industrial sickness observed by the researchers and industrialist over the years. Tiwari committee was setup for an analysis of the sickness in private sector.

The Tiwari<sup>15</sup> Committee was setup in 1984 to examine the legal and other difficulties faced by the banks and financial institution in rehabilitation of sick industrial undertakings, outlined the following break up (summarized in Table 3) of 341 cases of sick units, in the large scale private sector.

**Table 3**  
**Causes of Sickness by Tiwari Committee**

<i>Sl. No.</i>	<i>Causes of Sickness</i>	<i>% age of units affected by the cause</i>
1.	Management deficiencies/mis-management/dissensions	65.1
2.	Marketing constraints competitive market	29.0
3.	Shortage of working capital, liquidity constraints	23.8
4.	Power-cuts	22.6
5.	Labour trouble/poor labour relations	22.3
6.	Raw Material Storage/non-availability	21.7
7.	Plant imbalance/frequent breakdown/obsolete	21.1
8.	Demand recession/fluctuating demand	16.7
9.	High cost of production	13.5
10.	Under utilization of capacity	12.9

In the above Table 3 some of the causes are overlapping such that the total adds up to more a 100. However, the percentages do indicate the relative importance of each type of the causes.

Chawala<sup>16</sup> (2003) in the year 2003 categorized reasons of sickness in to two parts.

### **Internal Reasons and External Reasons**

*Internal Reasons*—That can be controlled by the company itself include (1) Mis-management (2) Underestimation of the cost of the project (3) Delay in the implementation of the project (4) Increase in cost due to delay in implementation of the project (5) Underutilization of Resources (6) Diversion of Funds (7) Lack of Management depth (8) Bad industrial Relations (9) Bureaucratic management (10) Inadequate working capital (11) Heavy Expenditure in advertisement.

*External Reasons*—Which cannot be controlled by the company and are external in nature include- (1) Adverse government Rules & Regulations, (2) Adverse price control policy, (3) Recession Trend/economic conditions, (4) Tough competition, (5) Shortage of Manpower, Raw Materials etc. (6) Changes in Technology, (7) Changes in Consumer Behavior, (8) Shortage of Power supply, (9) Delay in getting financial assistance.

### **Remedies & Reasons of Sickness**

1. Right people not in right places.
2. No merit during selection/promotion (it creates negativism and discouragement in meritorious employees).
3. No zeal among workers/employees.
4. No incentive to the deserving employees.
5. No devotion by the employees as they do not find environment to feel that the organization they work in is their own.
6. Pseudos take command in most situations. The real knowledgeable ones find their place either in dustbins or feel to abroad.
7. Indian mentality to “work to Rule” (thus not interested to see the psu flourish, but just their time only to earn their wages).
8. PSUs need to employ workers on contract basis (contract renewed only if they work whole heartedly) rather than as salaried employees. This is in context of the Indian situation.
9. Corruption at various levels in various ways.
10. Rivalry prevalent to such an extent that the “not good” personnel do not let the “good” personnel to do their job effectively.

### **Profile of State Uttar Pradesh**

Uttar Pradesh, The land of Taj Mahal is India's largest state in term of population. Primarily depends on agriculture. This state is considered as the heart of India. It is situated between 23° 5'N and 31° 28'N latitude and 76° 4' E longitude. Uttar Pradesh occupies a unanimous position in the industrial map of the country. The government of UP took more interest in the establishment of business enterprises only after the attainment of Independence. The population of UP as on the midnight of 1st march 2002 was 16,60,52,859. The industry in Uttar Pradesh comprises of traditional as well as internationally active industries like Brass, Carpet, Perfume, Silk, Handloom not to leave aside modern industries like electronics automobile fertilizers etc.

**Status of Sickness in State Uttar Pradesh<sup>17</sup>**

As on March 2000, there were 98 Government companies (including 37 subsidiaries) and seven statutory corporations as on March 1999 under the control of state government. During the year one new government company Uttar Pradesh Power Corporation Limited was incorporated.

The investment in public sector undertaking in Uttar Pradesh as on 31 March 2000, the total investment in 105 Public Sector Undertakings (98 Government companies and seven Statutory corporation) was Rs. 17313.04. The investments are in the field of government companies' government companies and Statutory Corporation.

As far as the sickness is concerned it is mentioned in the following table:

**Status of SLPEs in Uttar Pradesh<sup>18</sup>**

<i>Total no. of SLPEs as on 31-03-01</i>	<i>Investment (Rs. in crore)</i>	<i>Accumulated losses if any (Rs. in crore)</i>	<i>No. of loss Making SLPEs</i>	<i>No. of Non-working SLPEs</i>
41	17773	5327	21	19

Bacisly there are two methods to overcome with the problem of sickness.

1. Privatization
2. Restructuring

**Status of Privatization/restructuring in Uttar Pradesh**

<i>No. of SPEs identified for disinvestments/ restructuring/ closure</i>	<i>No. of SLPEs in which process initiated</i>	<i>No. of SLPEs in privatized</i>	<i>No. of SLPEs closed</i>	<i>No. of SLPEs restructured</i>
25	25	1	14	1

**Mechanism for Disinvestment**

Government has issued an Uttar Pradesh Public Enterprise/Corporation Reform Policy-2000 and a State Disinvestment Commission was constituted on 30.11.98, which became operational from January 2000.

**Status of Employees**

VRS has been given to 14,000 employees.

- Details of Privatisation/restructuring

- Reforms in the public sector in UP are going on since 1990 sold UP Cement Corporation and Auto Tractor Ltd., but the former was again taken over the Government.
- 10 Regional Development Corporations and U.P. Horticulture Ltd., U.P. Motion Pictures Ltd., and U.P. State Brassware Corporation were closed between 1990-91 to 1996-97.
- Tarai Anusuchit Janjati Vikas Nigams Assets have been transferred to U.P. Scheduled Castes Finance and Development Corporation.
- UPSEB is being revamped and 3 separate companies have been formed as UP Water Electricity Nigam UP Electricity Production Nigam and UP Power Corporation.
- Government is implementing disinvestment and closure of Public Enterprises totaling 23 separate units.
- 25 SLPEs were referred to Disinvestment Commission. 25 have been examined and recommendations being processed.
- The Government has accepted closure of the following enterprises in Phase 1 of the reforms programme:<sup>19</sup>
  1. 11 Mills of U.P. State Sugar Corporation
  2. 5 Mills of Textile Corporation and its head office
  3. U.P. Instruments Ltd.
  4. U.P. State Mineral Development Corporation
  5. U.P. Panchayat Raj Vitta Evam Vikas Nigam
  6. U.P. Pashudhan Udyog Nigam Ltd.
- Uttar Pradesh Government decided to privatize its 24 Sugar Mills owned by the UP State Sugar Corporation to the private sector on a 30-year management lease contract basis, include 11 working units, eight sick units, and five closed mills.<sup>20</sup> These have small crushing capacities ranging between 800-2500 tonne per day.
- Those who have put in their bids are mainly concerned about securing the cane areas attached to the mills being privatised. The mills per se have no value, given their totally outdated plant and machinery. But since existing norms do not permit a sugar factory to come up within a radial distance of 15 km from another, it makes sense for private owners to acquire any running mill in the adjoining belt, which would confer it monopoly over the raw material in the area.
- Some of the clauses put forward by the Uttar Pradesh Government are seen to be rather restrictive.



- The mills are not being sold out right; instead, they are being offered on 30-year long lease, at the end of which the management reverts to the State Government.
- The private miller will have to seek official permission each time, he makes any investment in the taken over unit, even for capacity expansion or modernization purposes.
- The lessee cannot undertake any rationalization of the mill's workforce.
- The operator is required to pay a cane price not below the rate 'advised' by the State Government.

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