

Sickness of Micro, Small and Medium Enterprises in India

Dr.Sardar Gugloth*; Nalla Bala Kalyan Kumar**

**Associate professor, Department of management studies,
Sri Venkateswara University, Tirupati, Andhra Pradesh, India.
E-Mail: drgsardar@gmail.com*

***Research scholar, Department of management studies,
Sri Venkateswara University, Tirupati, Andhra Pradesh, India.
E-Mail: kalayanmba2008@gmail.com*

Abstract

The Micro, Small and Medium Enterprises (MSMEs) in India has been increasing extremely fast in recent years. Industrial sickness has been growing from the latest decade. The intention of this paper is to give explanation the incidence of sickness and causes of in the industry sector in India many traditional and modern industries are now being affected by industrial sickness. Sickness in the industrial units is not a new happening as is obvious in the developing countries. The paper highlights the causes and remedies of industrial sickness of small scale industries in India.

Key Words: *causes, industry, MSMEs (Micro, Small and Medium Enterprises), Sickness, Signals and Symptoms.*

1.0 INTRODUCTION

The Micro, Small and Medium Enterprises (MSMEs) sector constitutes a significant segment of the Indian economy in terms of its contribution to the country's industrial production, exports, employment and creation of an entrepreneurial base. MSMEs have the advantages of generating gainful employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural, semi – urban and backward areas. The government established the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ART) in October, 1999 as the nodal ministry for formulation of policies and programmes / schemes, their implementation and related coordination, to supplement the efforts of the states for promotion and development of this category of industries in India. The Ministry of SSI and ART was bifurcated into two separate ministries, namely, Ministry of Small Scale Industries and Ministry of Agro and Rural Industries, in September 2001. The role of the Ministry of Small Scale Industries is mainly to assist the states in their efforts to promote growth and development of the SSIs to enhance their competitiveness and to generate additional employment opportunities. In addition, the Ministry attempts to address issues of country-wide common concerns and also undertakes advocacy on behalf of the SSI. The output of the Small-Scale Industry Sector contributes almost 40 per cent to the gross industrial value-added and 45 per cent of the total exports from India and is the second largest employer of human resources after agriculture. As per the quick estimates of 4th All India Census of MSMEs, The number of enterprises is estimated to be about 26 million and these provide employment to an estimated 60 million persons of the 26 million MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94%) are in the unregistered segment.

MSMED Act 2006: According to Micro, Small and Medium Enterprises Act the enterprises are broadly classified in terms of activity such as enterprises engaged in the manufacturing/production and enterprises engaged in services. While the manufacturing enterprises are defined in terms of investments in plant and machinery, the service enterprises in terms of investment in equipments. The Act has also defined medium scale enterprises for the first time. The enterprises are further classified into Micro, Small and Medium categories.

Manufacturing Enterprises:

Micro Enterprises – investment up to Rs. 25 lakh

Small Enterprises – investment above Rs. 25 lakh and up to Rs. 5 crore

Medium Enterprises – investment above Rs. 5 crore and up to Rs. 10 crore

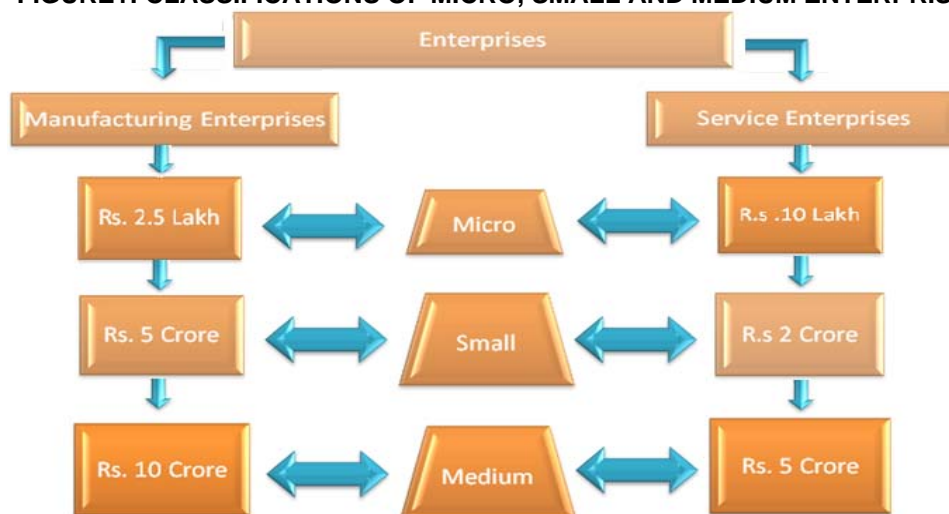
Service Enterprises:

Micro Enterprises – investment up to Rs. 10 lakh

Small Enterprises – investment above Rs. 10 lakh and up to Rs. 2 crore

Medium Enterprises – investment above Rs. 2 crore and up to Rs. 5 crore

(The investment limits of these enterprises are as shown in figure 1.)

FIGURE1: CLASSIFICATIONS OF MICRO, SMALL AND MEDIUM ENTERPRIS

(As per Micro, Small and Medium Enterprises Development Act, 2006)

2.0 DEFINITION OF SICKNESS

In common parlance, a sick industry is one which is not healthy. A healthy unit is one which earns a reasonable return on capital employed and which builds up reserves after providing reasonable depreciation.

2.1 Signals and Symptoms Of Sickness

Sickness is a gradual process with distinct stages taking from 5 to 7 years to corrode the health of a unit beyond cure. It starts with downturn in the industry whose continuation leads to setting in of industrial sickness. The process of industrial sickness can be presented in the following table.

Table 1: Process of industrial sickness

PROCESS OF INDUSTRIAL SICKNESS	
Normal Units	→ Functional areas, viz., production, marketing, finance and personnel are normal and efficient. Generating profits, Current ratio is more than one. → Net worth is positive and Debt-equity ratio is satisfactory
Tending towards sickness	→ Initial aberration in some of the functional areas mentioned above. Decline in profit during last year and losses anticipated in current year
Incipient Sickness	→ Deterioration in the above functional areas continues. → Cash losses incurred last year are expected in current year. → Deterioration anticipated during current year. → Although current ratio is more than one during last year. → Deterioration anticipated in debt-equity ratio during current year
Sickness	→ Unit's functional areas have become inefficient, cash losses were incurred last year, expected in the current year and next year also → Current ratio is less than one and debt- equity ratio has worsened

2.2 Symptoms of Sickness

The persistence of various signals over a long period of time becomes symptoms of sickness. The various symptoms ultimately reflect on plant performance, capacity utilization, financial ratios, share market price and practices in the diverse areas of finance, production, marketing and labour relations in the industry. Some of the important symptoms which characterize industrial sickness are given below: persisting shortage of cash, deteriorating financial ratios, widespread use of creative accounting, continuous tumble in the prices of the shares, frequent request to banks and financial institutions for loans, delay and default in the payment of statutory dues, delay in the audit of annual accounts; and demoralization of employees and desperation among the top and middle management level. The financial ratios, in all cases, cannot be considered as true symptoms of industrial sickness mainly due to two reasons. First, the sickness prone units, in order to present a better and sound image, do a lot of window dressing. Second, the financial data is available after a gap of one year. However, an early identification of signals and symptoms of industrial sickness makes the

task of detecting sickness easier. The details of sickness relating to MSMEs sector in India are presented in Table 2.

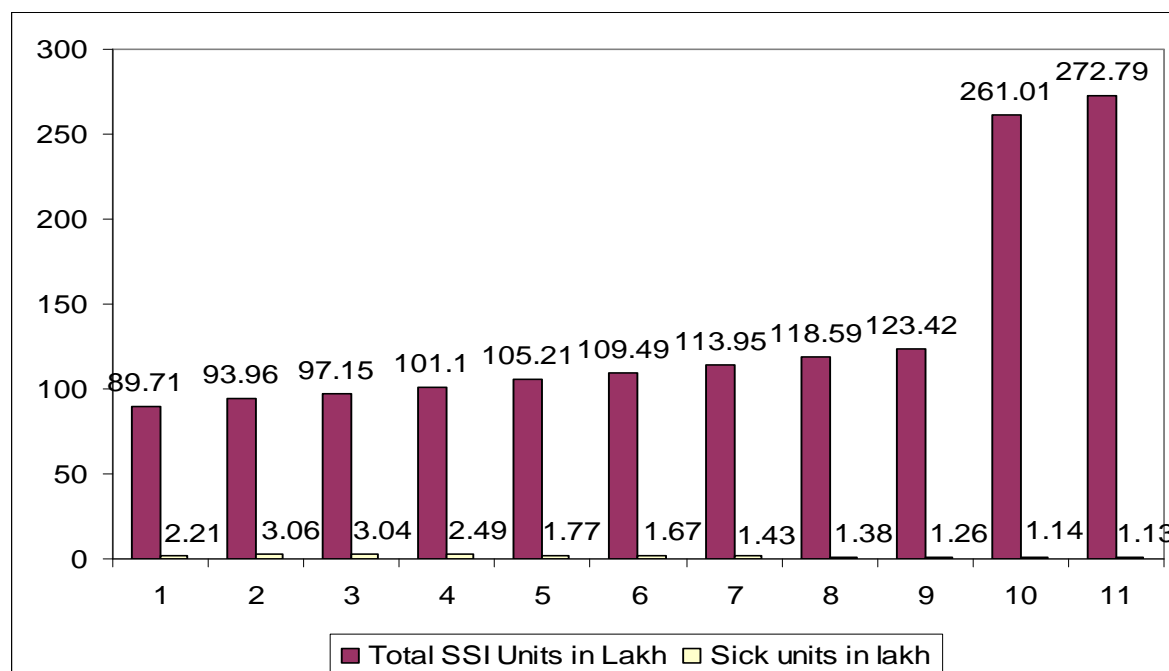
TABLE 2: SICKNESS IN MSMES SECTOR OF INDIA DURING 1998 TO 2008 IN INDIA

<i>Year</i>	<i>Total SSI Units in Lakh</i>	<i>Sick units in lakh</i>	<i>Percentage</i>	<i>Total Investment in crores</i>	<i>Sick units investment in</i>	<i>Percentage</i>
1998	89.71	2.21	2.46	133242	3857	2.89
1999	93.96	3.06	3.26	135482	4313.48	3.18
2000	97.15	3.04	3.13	139982	4608.43	3.29
2001	101.1	2.49	2.46	146845	4505.54	3.07
2002	105.21	1.77	1.68	154349	4818.95	3.12
2003	109.49	1.67	1.53	162317	5706.35	3.52
2004	113.95	1.43	1.25	170219	5772.64	3.39
2005	118.59	1.38	1.16	178699	5380.13	3.01
2006	123.42	1.26	1.02	188113	4981.13	3.64
2007	261.01	1.14	0.43	500758	5266.65	1.05
2008	272.79	0.85	0.31	558190	13849	2.48

Source: Government of India, Ministry of Micro, Small and Medium Enterprises, Annual Report 2009–2010.

It may be noticed from the Table 2 that there were 89.76 lakh MSMEs units in 1988 and their number has steadily increased year by year to 272.79 lakh units in 2008. The percentage of sick units among the MSMEs was 2.46 per cent in 1998 and it gradually went up to 3.13 in 2000 and declined to a level of 0.31 per cent in 2008. The total investments in MSMEs units was reported at Rs. 1,33,242 crore in 1998, of which investment incurred on sick units has been worked out to 2.89 per cent. The percentage of investment of sick units was revolving in the range of 3.52 per cent to 0.248 percent. The maximum percentage of 3.52 per cent was observed during the year 2003. In absolute terms, the investment in sick units increased year after year as there was increase in investment in MSMEs units. The sickness among MSMEs units during 1998-2008 is presented in the graph 1.

GRAPH 1: SICKNESS IN MSMES DURING 1998 TO 2008



Source: Government of India, Ministry of Micro, Small and Medium Enterprises, Annual Report 2009–2010.

2.3 Viability of Sickness Small Enterprises

A unit may be regarded as potentially viable if it would be in a position, after implementing a relief package spread over a period not exceeding five years from the commencement of the package from banks, financial institutions, Government (Central and State) and other concerned agencies. The repayment period for restructured (past) debts should not exceed seven years from the date of implementation of the package. In the case of tiny/decentralized sector units, the period of reliefs/concessions and repayment period of restructured debts is not to exceed five and seven years respectively. Based on the norms specified above, the banks/financial institutions have to decide whether a sick Small Enterprise is potentially viable or not. Viability of a unit identified as sick should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable/viable'. While identifying and implementing the rehabilitation package, banks/FIs are advised to do 'holding operation' for a period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such 'holding operation'. The details of potentially sick in MSMEs sector in India are presented in Table 2

TABLE 3: POTENTIALLY VIABLE UNITS OF MSMES SECTOR IN INDIA DURING 1998 – 2008.

As per the data complained by the RBI from the schedule commercial banks, the sickness in the MSMEs has decreased in the recent years. The number of sick units at the end of March, 1998 to 2008 is presented in the following table 3.

Year	Total MSMEs sick unit		Potentially viable			
	Units (in lakh)	Amount (In crore)	Units (in lakh)	Amount (In crore)	Units (in lakh)	Amount (In crore)
1998	221586	3857	18686	456	8.43	11.82
1999	306221	4313.46	18692	376.96	6.10	8.74
2000	304235	4608.43	14373	369.45	4.72	8.02
2001	269630	4505.54	13076	399.45	4.85	8.87
2002	177336	4818.92	4493	416.41	2.53	8.64
2003	167980	5706.35	3626	624.71	2.16	10.95
2004	143366	5772.64	3245	576.24	2.26	9.98
2005	138041	5380.13	3720	498.56	2.69	9.27
2006	126824	4981.13	4594	498.16	3.62	10.00
2007	114132	5266.65	4287	427.46	3.76	8.12
2008	85187	13849	410	821.29	4.88	16.85

Source: Ministry of commerce and industry, Government of India

Table 3 presents the details of potentially viable units among the sick units in the MSMEs sector. From the Table, it can be observed that among 221536 micro, small medium units which were sick in 1998, 8.43 percent were rehabilitated since they were potentially viable. The absolute number of sick units declined gradually from 167980 units to 85187 units in 2008. The total investment incurred on the sick units was on the increase barring a few years in which the investment on sick units was marginally less than the previous year. It is striking to note that sickness in the MSME units had been declining gradually in absolute numbers, but the investment was on the increase. The percentage of sick units to can be rehabilitated was marginal.

3.0 CAUSES AND CONSEQUENCES OF SICKNESS IN MSMES

The causes of sickness are basically related to the disorder in any one or more of the functional systems within the unit, viz., Production, Finance, Marketing and Personnel. The various causes of industrial sickness are classified into both internal and external. The internal causes are concerned with choice of location under estimation of cost of capital, overestimation of demand, mismanagement, and failure to introduce proper control techniques and tools, poor maintenance of machinery and equipment and poor public relations. External factors relate to the environment in which the industry works and over which the industry has no control, for example , government policies regarding production, prices, and distribution, inadequate supply of essential inputs like raw material ,power, and transport etc., Sickness cannot be attributed to a single factor alone. In fact, it is the ultimate result of the cumulative effect of many factors/causes working simultaneously which may be closely inter-related or even independent of each other. In view of the origin of the causes of industrial sickness, these are broadly classified into two categories:

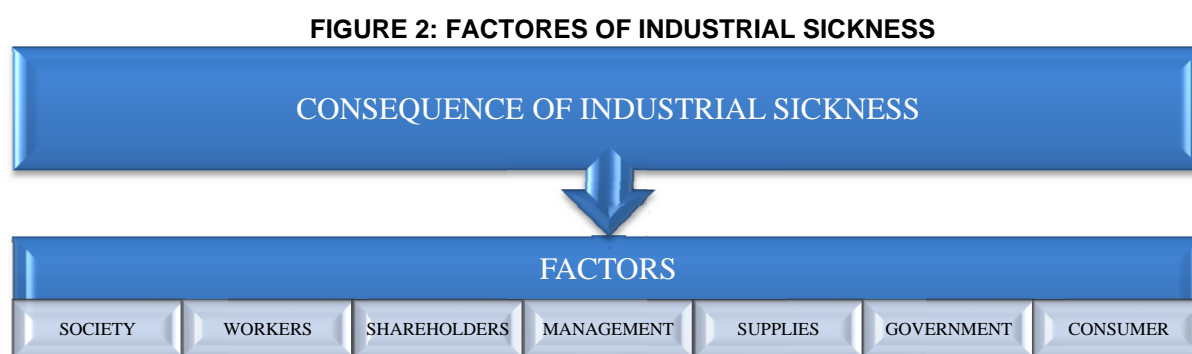
1. External or Exogenous Causes, and
2. Internal or Endogenous Causes.

I. EXTERNAL CAUSES

The external or exogenous causes which are beyond the control of the industry usually affect the industry-group as a whole. There may be several external factors causing a unit sick and which may vary from time to time for industry to industry and even from one point of time to another for the same industry. The important external factors causing industrial sickness include the following points, 1.changes in the industrial policies of the Government from time to time, 2.inadequate and untimely availability of necessary inputs like raw materials, power, transport and the skilled labour,3. Lack and shrinkage of demand for the product, 4. Recessionary trends hovering in the economy, 5.frequent industrial strikes and labour unrest, 6.shortage of financial resources especially working capital, and 7.Natural calamities like drought, floods, etc.

II. INTERNAL CAUSES

Internal or endogenous causes are those which are within the control of the unit. These causes arise due to some internal deficiencies in various factors like finance, production, marketing and personnel. The figure 2 shows factors of industrial sickness.



3.1 Five Basic Typologies of Industrial Sickness as Under:

- a) Operating: arising from managerial inability to conduct current operations efficiently, or from managerial corruption.
- b) Strategic: arising from the lack of adaptability to long-term environmental changes.
- c) Staying-power deficiency: due to defective financial structure.
- d) Still-born: initially misconceived project; and
- e) Catastrophic: caused by sheer bad luck

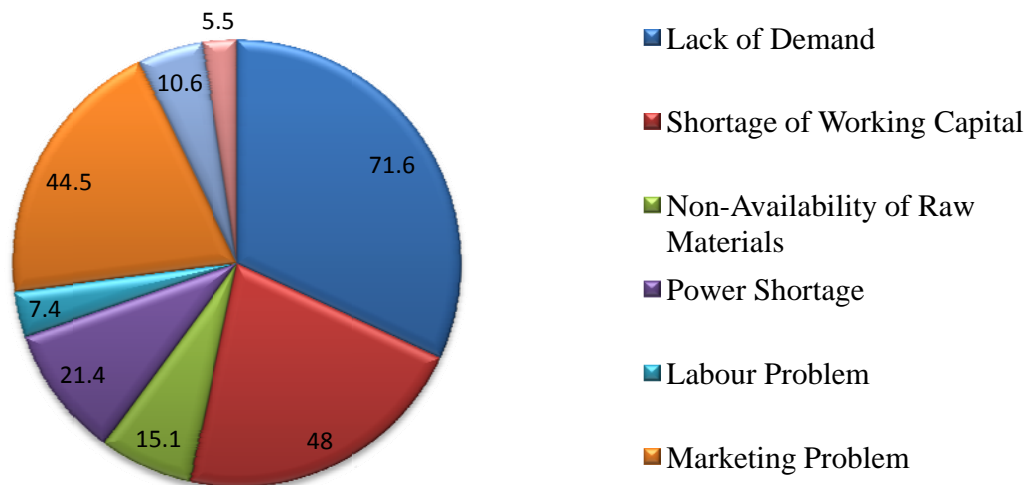
3.2 Reasons for Sickness/Incipient Sickness in MSMES.

The following table 4 indicates the reasons given by the units suffering from sickness incipient sickness. 'Lack of demand and shortages of working capital were the main reasons for sickness/incipient sickness in the MSME Sector.

TABLE 4: REASONS FOR SICKNESS MSMES IN INDIA.

<i>Reasons for sickness/incipient sickness</i>	<i>Proportion of sick/incipient sick units</i>
1.Lack of demand	71.6%
2.shortage of working capital	48.0%
3.non -availability of raw material	15.1%
4.power shortage	21.4%
5.labour problems	7.4%
6.marketing problems	44.5%
7.equipment problems	10.6%
8.Mangement problems	5.5%

The total will exceed 100%, as some units have reported more than one reason.

GRAPH 2: REASONS FOR SICKNESS IN %**Reasons for sickness msme's in india**

The above graph 2. Shows 'marketing problems' accumulated for 44.5 percentages. 'Power shortage' and 'non availability of raw material' shared 21.4 percentages and 15.1 percentages respectively. Other reasons such as labour problems, Equipment problems and management problems were found the minimal.

4.0 CORRECTIVE MEASURES

The growing incidence of sickness by size, region and industry followed by its far reaching socio-economic evil effects lends a strong realization of urgency to the solution of the sick industry problem in India. Therefore, the remedial measures to detect the fast spreading disease of sickness in industries are explained below:

1. Industrial sickness is not an overnight occurrence but it is a gradual process taking from 5 to 7 years corroding the health of a unit beyond cure. Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce industrial sickness. It is not wrong to argue that delayed identification of sickness could have been mainly responsible for such high proportion of non-viable units among the identified sick units. For identifying sickness at an early stage, appropriate yardsticks need to be evolved and developed.
2. It is a happy augury that now sick small-scale industries also fall within the purview of Board for Industrial and Financial Reconstruction (BIFR). It is better to open a separate division in BIFR to deal with sickness in small-scale industries because small-scale industries are characterized by different sets of problems and prospects as compared to medium and large scale industries.
3. In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small scale industries borrowers to identify units which are becoming sick or are prone to sickness. The Government of India and the Reserve Bank of India should be requested to direct commercial banks and financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programmed to facilitate them to take appropriate action.
4. Last but not the least, past experiences indicate that many industrial units fall sick because of the improper opportunity scanning made by the entrepreneurs themselves. They start an industrial unit mainly to avail of subsidies, concessions and incentives from the Government. We know that a small scale industry entrepreneur is like a one-man band. He/she may possess one or two or three ingredients/requisites but not the all. To quote, an entrepreneur may have land, building, machinery etc., but has no experience in functional areas like production and marketing. Therefore, the necessity of the situation is to impart necessary knowledge to the entrepreneurs in various functional areas through like Entrepreneurship Development Programme (EDP).

5.0 SUGGESTIONS

The following are some of the suggestions there may be followed for making the sick units more viable and challenging in carrying out their functions for which they have been set up and make this sector more stable.

- a) The state and central governments through their bodies institute for the development of sector should insulate the supply of essential inputs like raw material, power, coal, oil, and other facilities like transport and marketing.
- b) The government should grant soft loans to their units at concessional rates of interest and reduce margins.
- c) The sick enterprises should be given priority in the supply of raw materials.
- d) It may be suggested that a special development bank may be set up exclusively in charge of catering the financial needs of small units. A high level of committee appointed by RBI has also recommended for the same so that the small units need not approach several financial institutions.
- e) The state and central governments should take the required measures to implement strictly their policies in regard to their protection offered to save it from being exploited or through out from the market .
- f) When the units have some problems, unfortunately, the management of sick units seldom brings their problems to the notice of banks thinking that they will spoil their image. But such an attitude amongst the management would further spoil their units. Therefore, there should be a close rapport between the banks and managements and the management should seek valuable advice and suggestion from banks.

CONCLUSION

A small scale unit is considered sick when it has accumulated losses equal to or exceed 50% of its peak net worth in the immediately preceding five accounting years. The signs of sickness are discernable quite early in the form of decline in capacity utilization, shortage of liquidity, irregularity in maintaining bank accounts, delay in meeting statutory dues, etc. The persistence of these signals takes the form of symptoms like continuous shortage of liquid, funds worsening financial position, continuous tumble in share prices, frequent request to financial institutions for loans, etc. The various causes of industrial sickness are classified into external and internal causes. While small scale units fall prey to external factors like lack of infrastructure, lack of finance, problems of marketing, etc., large and medium scale units fall sick mainly due to internal factors like mismanagement. Whatever may be the causes of sickness, the main consequences of sickness on an economy have been locking up the country's financial resources, wastage of scarce capital assets, loss of production and increase in unemployment. Industrial sickness is, thus, the bane of an economy. Hence, it needs to be detected and cured. With the bulk of the modern small scale industry in India is a post independence phenomenon the problems it faces are also peculiar to the rapidly changing economic scenario of the planning years. Most of the MSMEs established in India are confronted with the delay in supply of raw material, delay by bankers in sanctioning working capital and poor selection of entrepreneurs.

REFERENCES

1. Annual Report (2009-10), Ministry of Micro, Small and Medium Enterprises, Government of India.
2. Baruch, Financial Statement Analysis: A New Approach, Prentice Hall, Inc., New Jersey, 1974, p.134.
3. Bhatia, B.S & Batra, G.S (1997), Management of Sick Industries, Deep & Deep Publication, New Delhi.
4. Bidani S.N and P.K. Mitra Industrial Sickness: Identification and Rehabilitation, Vision Books, New Delhi, 1983, p.17.
5. Datta & Sundharam, Indian Economy, S.Chand Publication, 2010.
6. Dhar, P. K., Indian Economy, Kalyani Publishers, New Delhi, 2004.
7. Government of India: Sick Industrial Companies (Special Provisions) Act, 1985.
8. Government of India, Ministry of Micro, Small and Medium Enterprises, Annual Report 2009-2010.
9. Gupta, L C (1983). Financial Ratios for Monitoring Corporate Sickness, New Delhi: Oxford University Press.
10. Kaveri, V S (1980). Financial Ratios as Predictors of Borrower's Health. New Delhi: Sultan Chand.
11. Khanna, S.S Entrepreneurial Development, S. Chand & Company Ltd New Delhi 2009, P.331.
12. Khandwalla, P N (1988). "What Can Financial Institutions Do to Prevent Corporate Sickness?" Vikalpa, Vol 13, No 2, April-June, 11-23.
13. M. Jaya Kishore "World Trade organization and its implications for small scale industries in Karnataka." SEDME Journal Vol.31, June 2004.p.99.
14. Ministry of commerce and Industry, Government of India.
15. Ojha, P D (1987). "Finance for the Cotton Textile Industry: Problems and Prospects," RBI Bulletin, May.
16. Panda, R.K. & Meher, Raj Kishore (1992), Industrial Sickness: A Study of Small Scale Industries. Ashish publishing House, New Delhi.
17. Ram K Vepa, Modern Small Industry in India, Problems and Prospects, Sage Publication, New Delhi-1998, pp23-24.
18. Statistical Handbook, Directorate of industries, Andhra Pradesh, 2009-10.
19. Srivastav, S. and Yadav, R.A., Management and Monitoring of Industrial Sickness, Concept Publishing company, New Delhi, 1986.
20. www.msme.in
21. www.dcmsme.gov.in