

Industrial Sickness - Timely Detection, Revival & Rehabilitation: A Survey

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1.Introduction:

Health of the Industrial Units is required to be regularly monitored ,indications of sickness detected in time , units which have shown signs of sickness ,units which are in the process of becoming sick and units which have already fallen sick need to be identified , treated, revived and rehabilitated and units which are facing terminal sickness may have to be wound up . Various internal and external factors in production , marketing ,finance , personnel and management cause industrial sickness . Resultant the profitability of the commercial banks and term lending financial institutions gets severely affected and the investor confidence reaches a low ebb which has a far reaching impact on the economy.

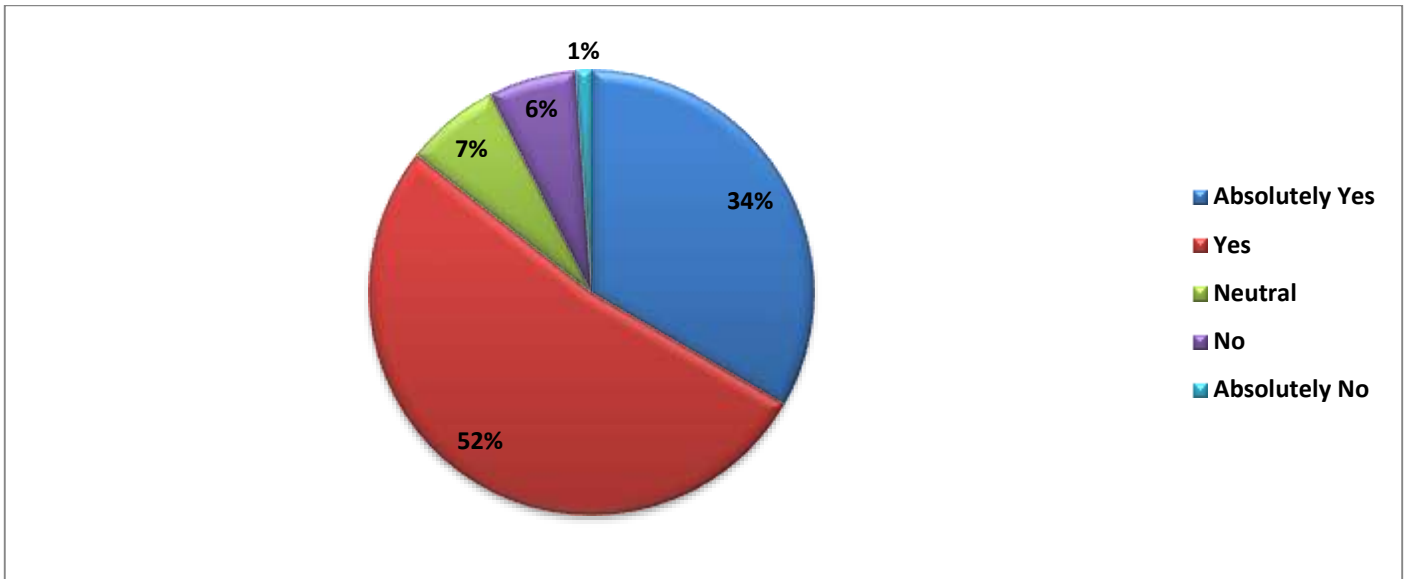
2 . Objectives

The objective of this study was to get a feedback from the various stakeholders from ground zero on the various facets of Industrial Sickness like , could the sick units be classified , what could the best indicator of sickness be , in which sector was industrial sickness most prevalent , in which region of the country was sickness predominant , the ineffectiveness of the existing legal framework to deal with Industrial Sickness , the various tools of timely detection , the success or failure of the various existing mechanisms for revival & rehabilitation, the enactment of the Insolvency & Bankruptcy Code 2016 ,next steps and key challenges in its implementation , the concept of establishment of a Bad Bank and the possibility of rating of all NPA 's .

3.Research Methodology :

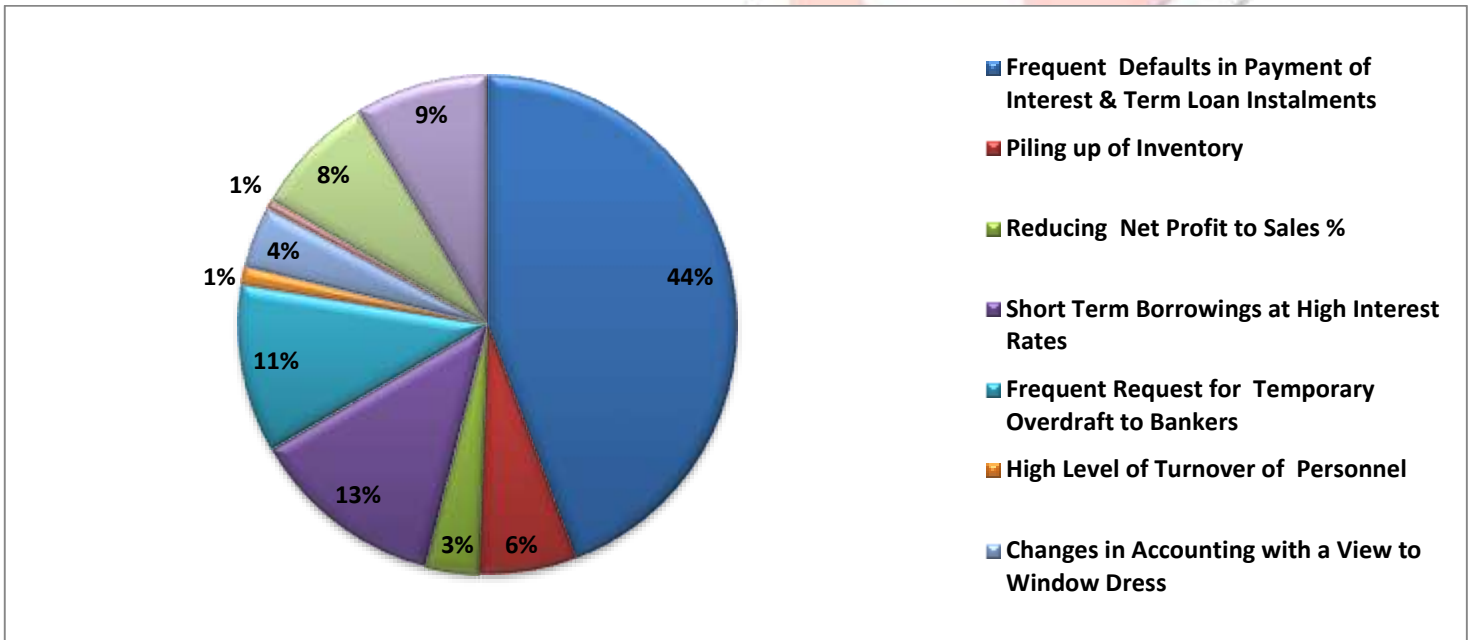
A survey was conducted using the questionnaire methodology . A structured questionnaire was framed with 24 research questions covering the various facets of industrial sickness .The Questions framed were close ended questions which were a combination of Dichotomous , Multiple choice and Likert Scale . The Survey Questionnaire was designed through “ Google Forms “ and these were e-mailed to more than 500 professionals comprising of Chartered Accountants , Cost Accountants , Company Secretaries , Insolvency Professionals , Lawyers in practice , Financial Consultants in the practice of Stressed Assets Management , Credit Rating Analysts and Bankers in PSU and Private Banks.. 174 completed responses were received over a period of six months .

Chart 1 : Some of the Units are Born Sick on account of ill Conceived projects, wrong choice of location, wrong product selection, inadequate market survey.



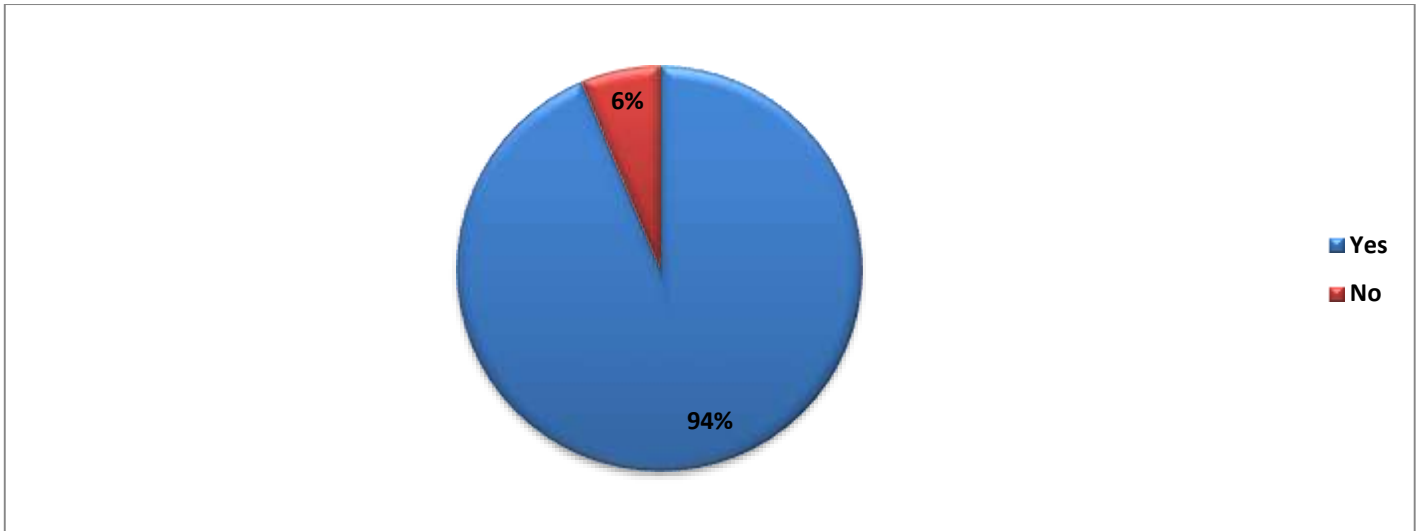
The first question asked to survey participants was , Do you agree that some of the units are born sick on account of ill conceived projects , wrong choice of location, wrong product selection , inadequate market survey etc? 85.30% of the respondents were in agreement that some of the units are born sick only 7% were neutral and undecided .

Chart 2 : Indicators of Sickness



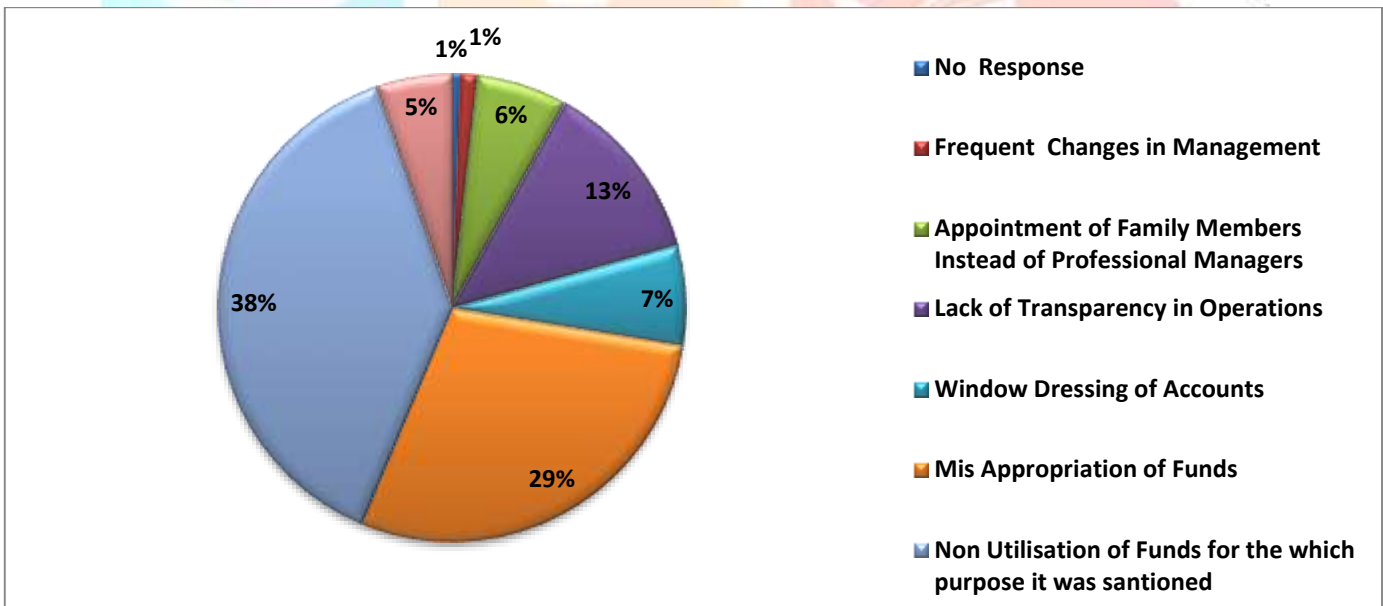
We asked the participants in the second question to chose the best indicator of sickness from a list of 10 options , 44% of the Respondents were of the opinion that Frequent Defaults in Payment of Interest and Term Loan Installments was the Best Indicator of Industrial Sickness Whereas 13% of the respondents felt that Frequent Requests for Temporary Overdrafts to Bankers was also a good indicator .

Chart 3 : Mis Management by Top Management is a Major Cause of Sickness



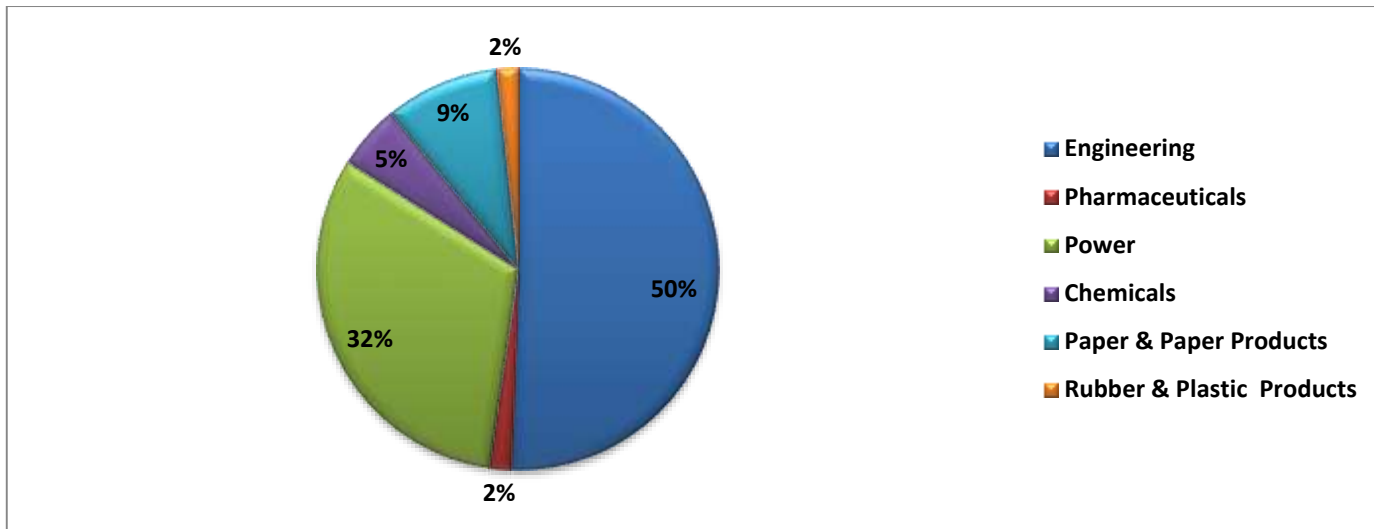
In the subsequent question we stated that mis - management by top is a major cause sickness amongst other causes like poorly conceptualized projects , over optimistic business plans, cost over runs ,highly leveraged capital structure, delayed approvals by local management etc. 93.70% of the Respondents were in agreement that yes , mis management by the top management was certainly the major cause of sickness.

Chart 4 : Types of Mis - Management by Top Management



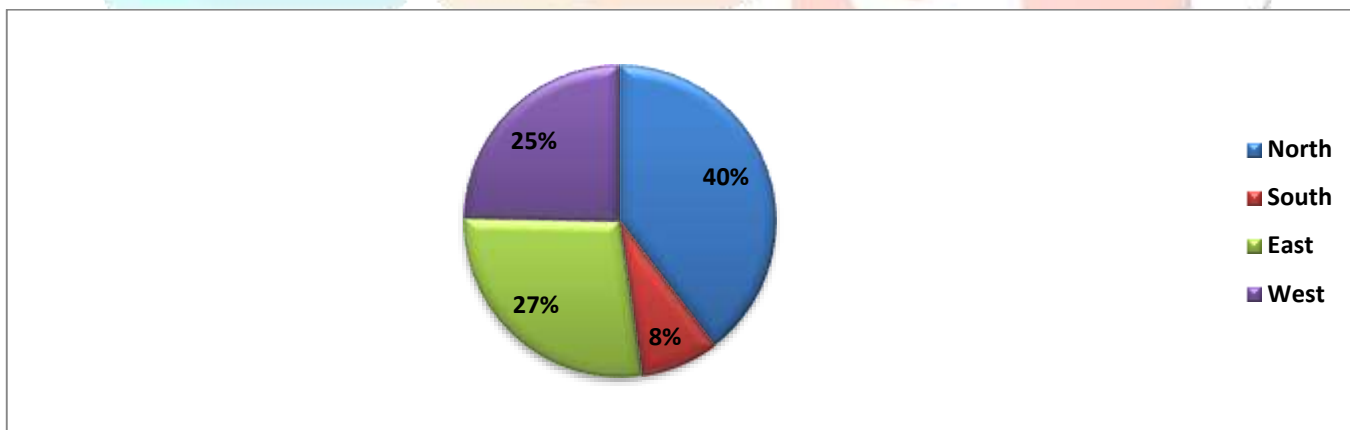
In the next question we gave an option to the participants to choose the frequently observed type of mis management by the top management ,38% of the respondents felt that the Funds were not being utilized for the purpose for which they had been sanctioned whereas 29% of the respondents felt that Mis Appropriation of Funds resulted in Mis Management .

Chart 5 : Business Sector most affected by Industrial Sickness

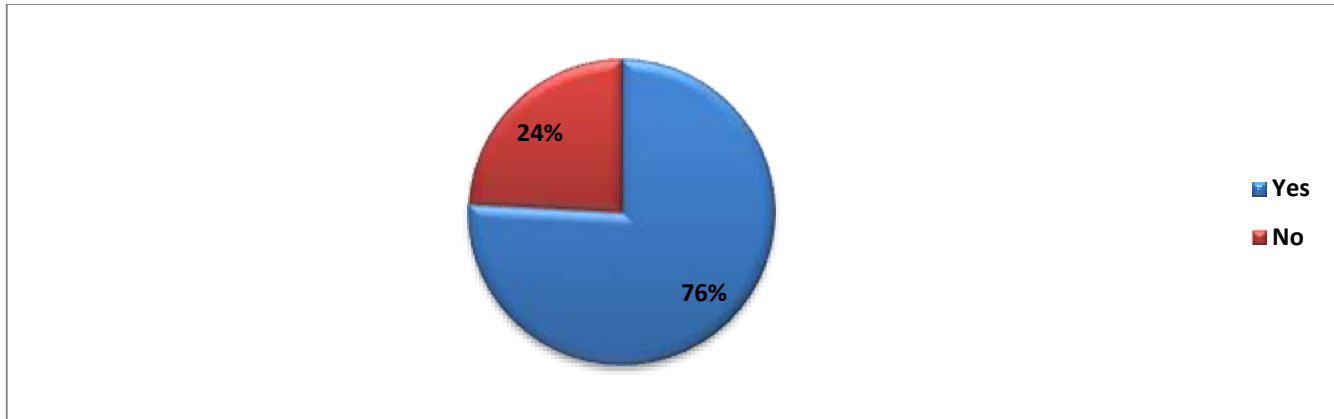


It was enquired as to , in which sector maximum number of sick units were found and 50% of the respondents agreed that the Engineering Sector was the most affected whereas 32% of the respondents were of the opinion that many of the Industrial Units were also found sick in the Power Sector .

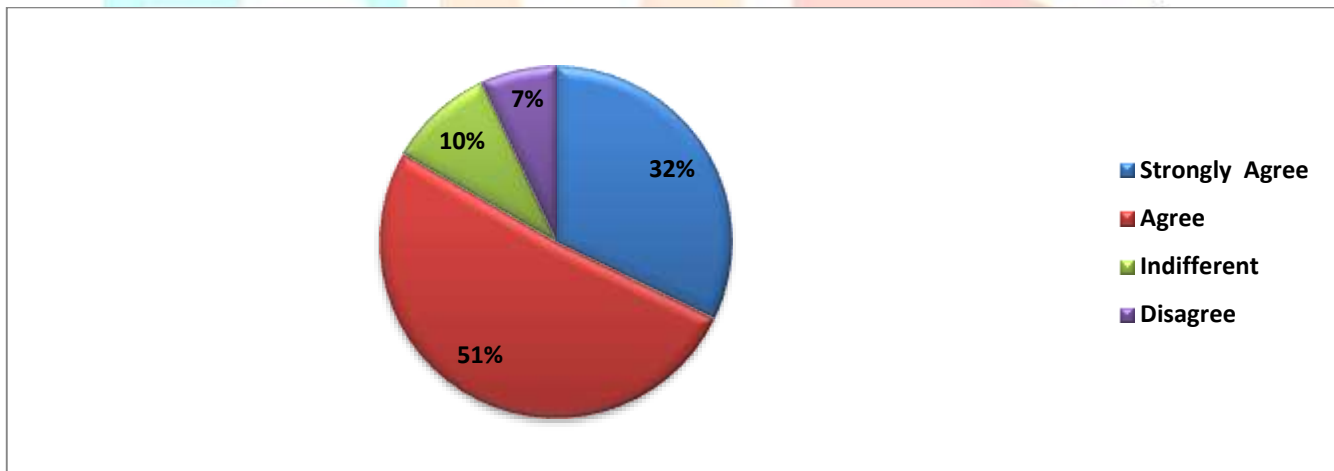
Chart 6 : Region with maximum Industrial Sickness



It was also enquired , in which region of the country are maximum sick units found , 40% of the survey respondents felt that the maximum number of the sick units were found in the Northern Region whereas 27% of the respondents were of the opinion that these sick units were in the eastern region and the Western Region was third with 25% .

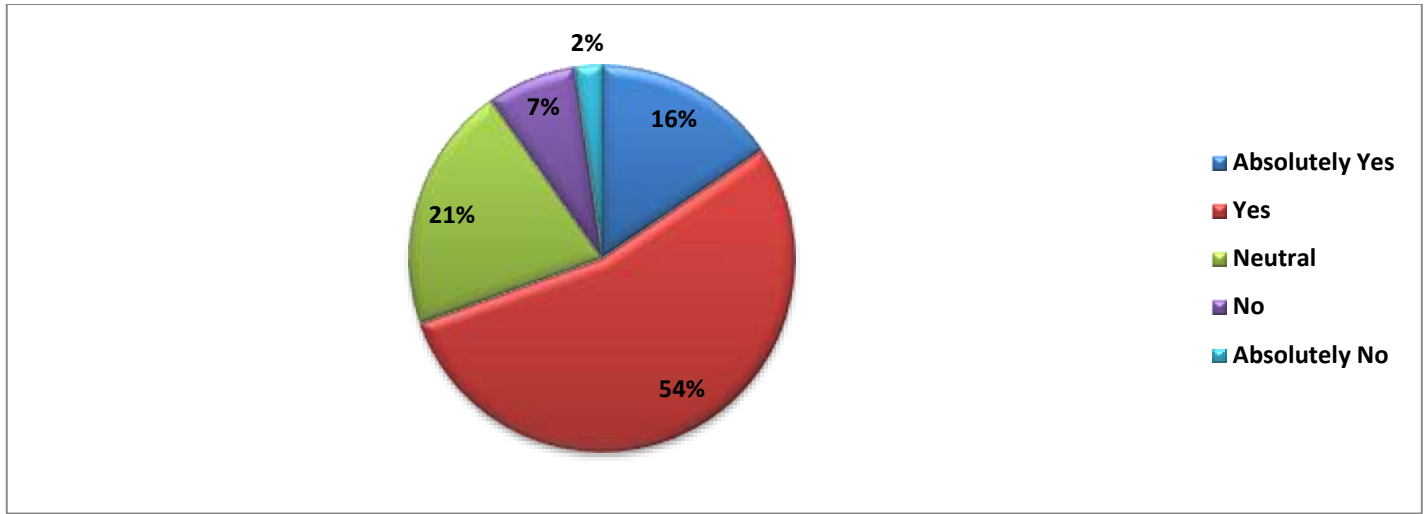
Chart 7: Availability of Multiple & Overlapping Remedies a major shortcoming.

It was also questioned that one of the major shortcomings in the existing legal framework governing Insolvency and bankruptcy process in India has been the availability of multiple and overlapping remedies i.e Companies Act, 2013, SICA 1985, RDDB 1993 and SARFAESI 2002, 75.90% of the respondents were in agreement.

Chart 8 : The Insolvency & Bankruptcy Code 2016 : A Game Changer

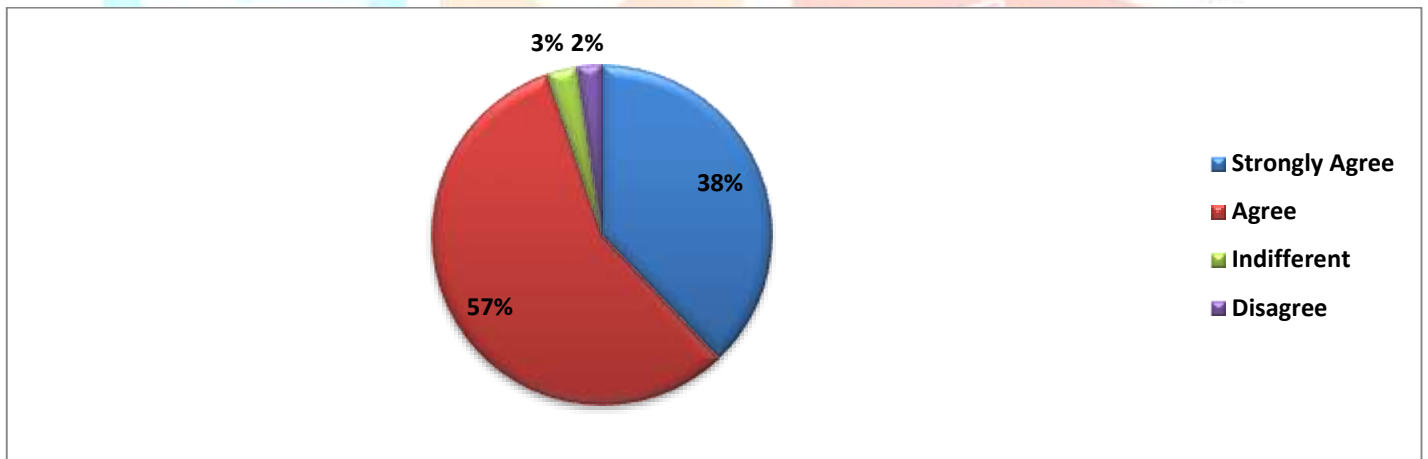
83.30% of the respondents agreed that the Insolvency & Bankruptcy Code 2016 shall be a “GAME CHANGER” which shall consolidate the laws relating to Insolvency & Bankruptcy, it could improve the recovery rate due to better borrower discipline, greater creditor rights and faster insolvency resolution process.

Chart 9: Ratio Analysis : Good Tool to timely identify sickness



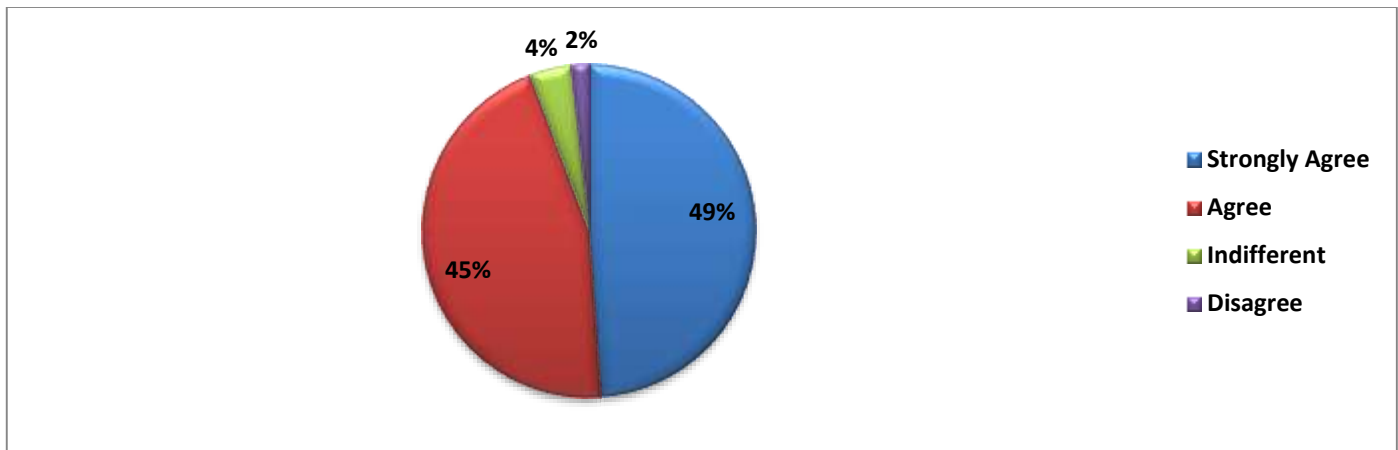
On one of the questions related to tools of early identification, 69.50% of the Survey respondents accepted that Ratio Analysis was a good tool in studying the state of corporate health and if effectively used by all the stakeholders i.e Promoters, Term Lending Institutions, Banks and the Reserve Bank of India, it could help in timely identification of sickness.

Chart 10 : Identification of Early Signs of Stress



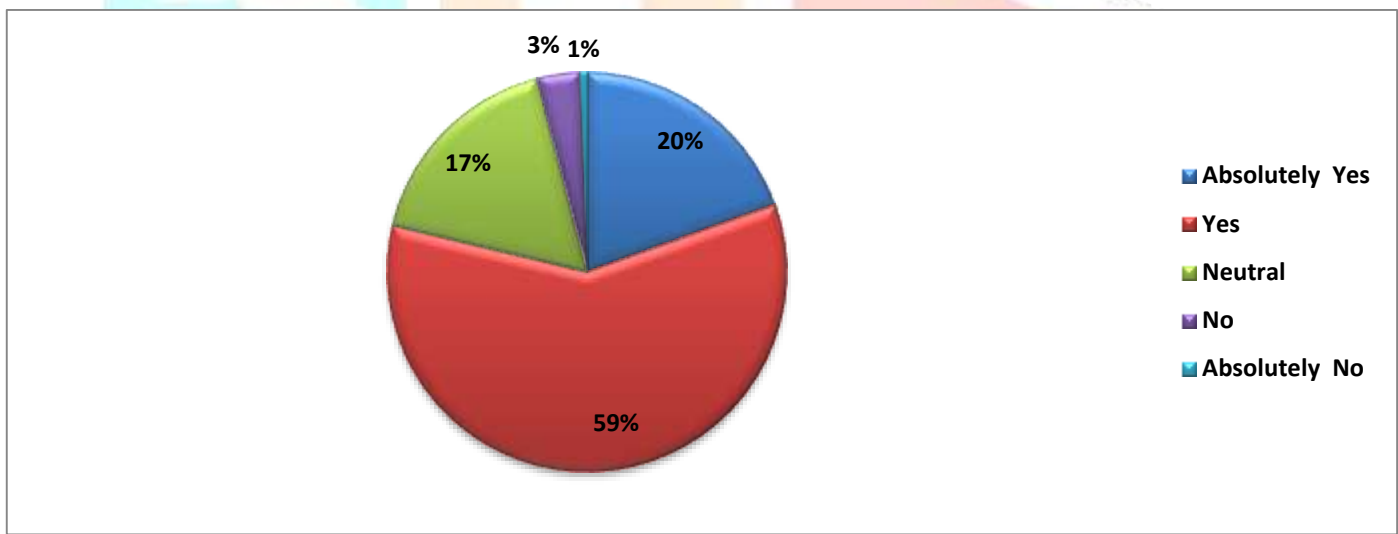
94.80% of the respondents agreed that identification of EARLY SIGNS OF STRESS in accounts by banks shall improve transparency and result in early turnarounds or timely sell offs in another question on tool of timely detection.

Chart 11 : Monitoring the End use of Funds Vs the purpose for which sanctioned



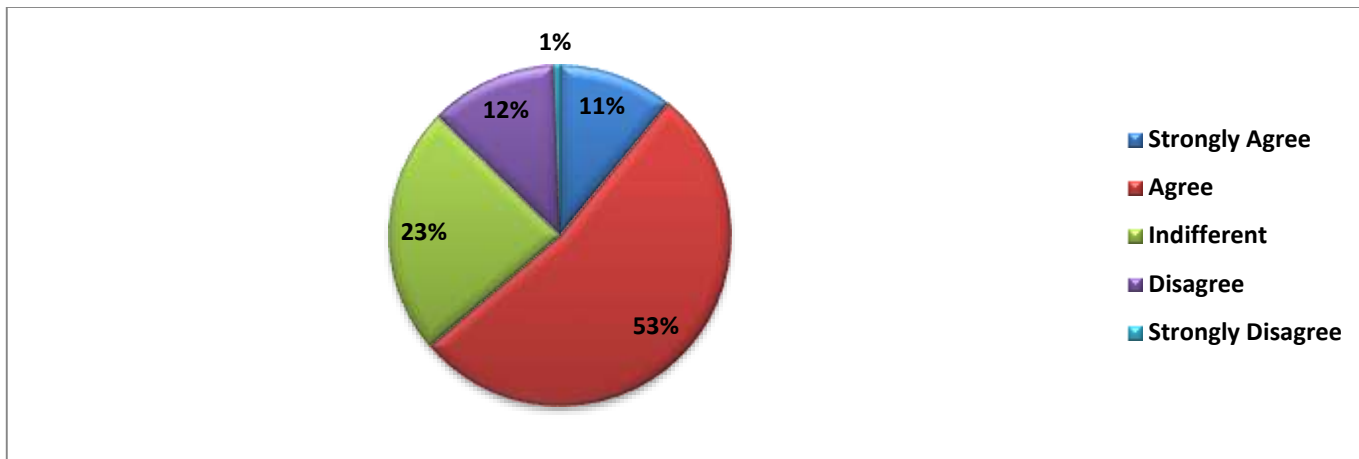
On being asked would Monitoring the End use of Funds versus the purpose for which they were sanctioned by Banks act as an Early Warning Signal for Banks/Term Lending Institutions , 94.30% of the Survey Respondents agreed to it.

Chart 12 : RBI Guidelines on Classification of Accounts



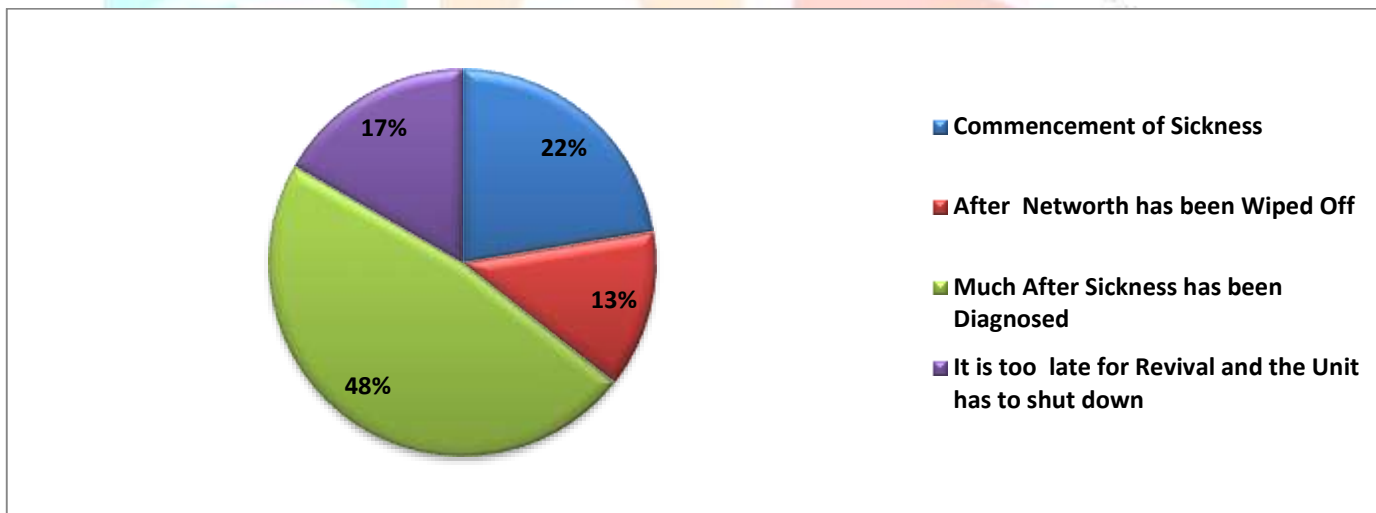
78.70% of the respondents were of the opinion that the RBI Guidelines on Classification of Accounts by Banks & NBFC's as Special Mention Accounts (SMA) i.e SMA -0 , SMA- 1 & SMA -2 would help in Early Detection of Distress in the Banking System.

Chart 13 : Credit Rating Agencies : An important Component in the Value Chain of Credit Risk Management



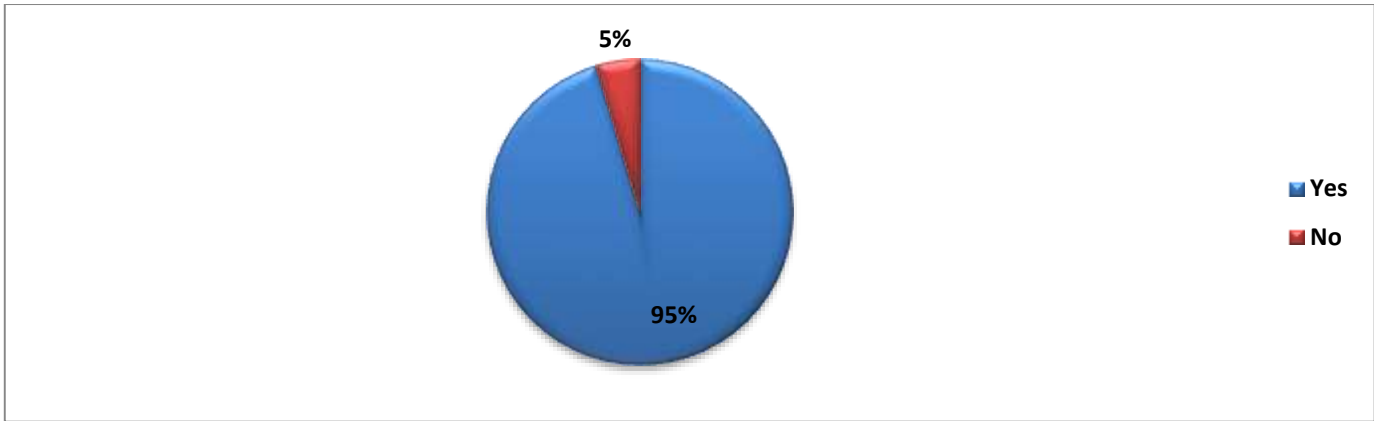
While discussing the role of the Credit Rating Agencies, 63.80% of the Survey Respondents were of the opinion that the credit rating agencies across the world were increasingly becoming an important component in the value chain of credit risk management.

Chart 14 : Timing of Revival & Rehabilitation of Units



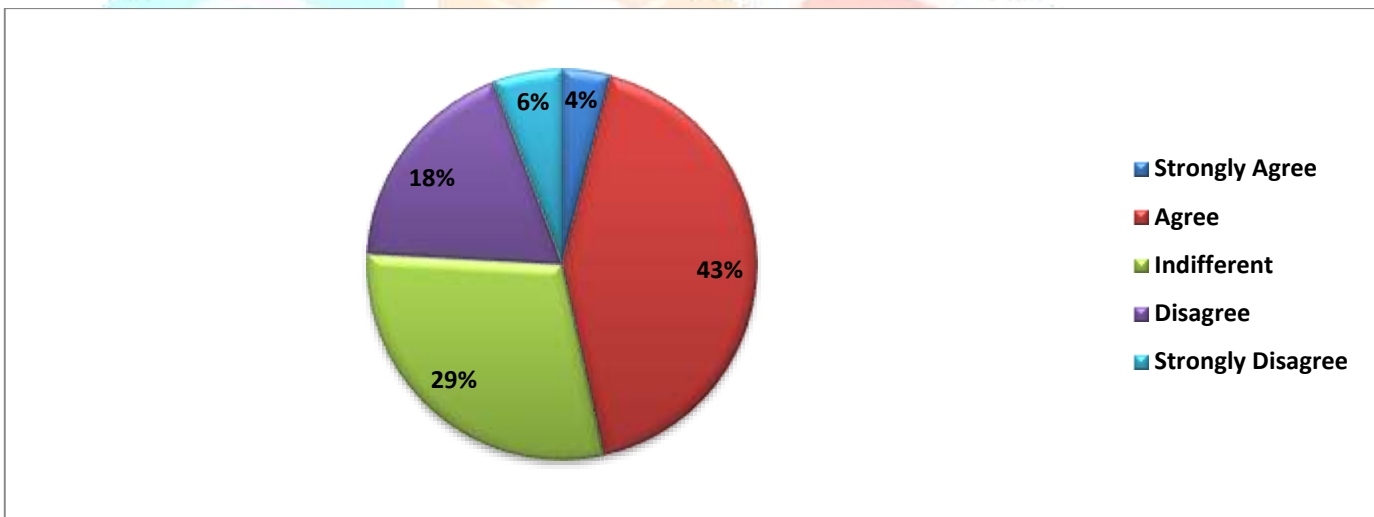
Almost 50% of the Respondents felt that the Industrial Units approached Banks and Financial Institutions for their Revival & Rehabilitation much after the sickness had been diagnosed whereas 17% were of the opinion that the commercial banks and Financial Institutions were approached when it was too late for Revival & and these unit had to be shut down.

Chart 15 : BIFR : Misused by promoters to delay Legal Action by Lenders



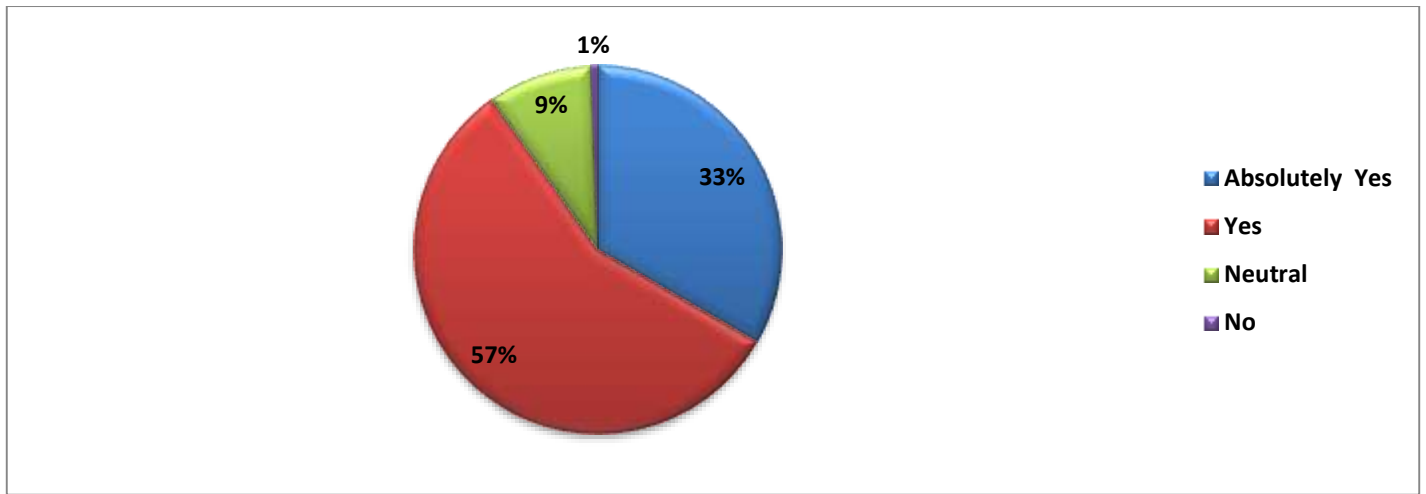
While analyzing the effectiveness of the various mechanisms of revival & rehabilitation , 95.40 % of the Survey Respondents agreed that the BIFR had failed in achieving its objectives of determining sickness, assisting reviving those that may be viable & shutting down others , since it has been misused by promoters to delay legal action by lenders for debt recovery .

Chart 16 : CDR – Useful in Revival & Rehabilitation



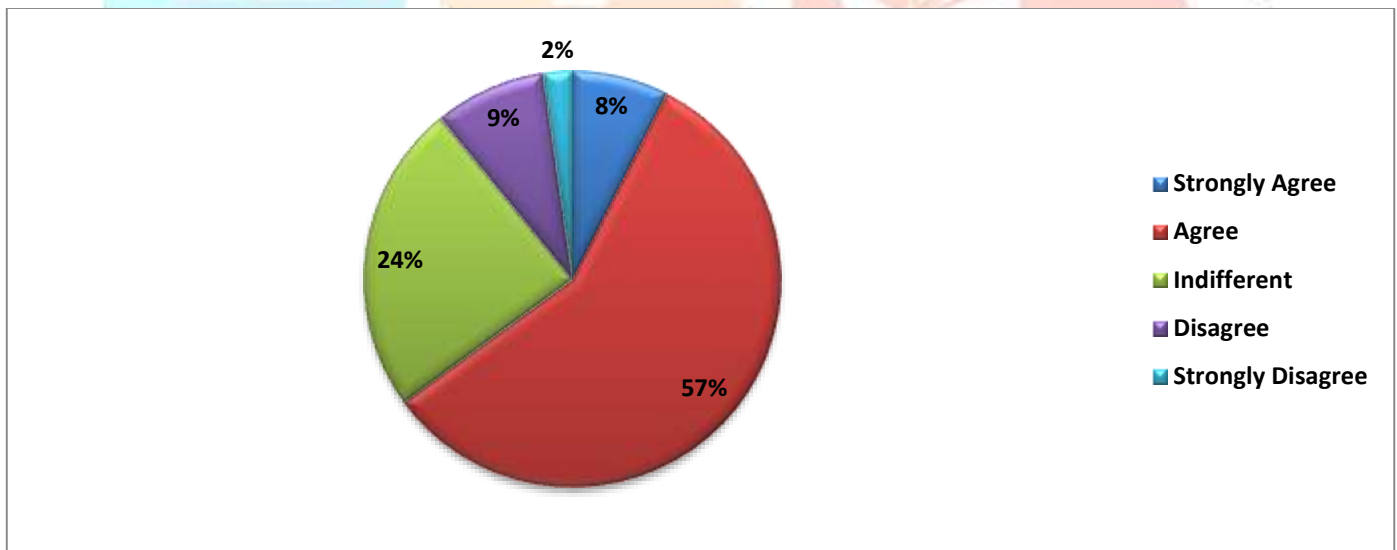
46.0% of the respondent agreed that CDR (Corporate Debt Restructuring) has been useful & successful mechanism in Revival of Units in genuine cases wherein Consortium Funding by Banks/Financial Institutions has been involved.

Chart 17 “ Hair Cut “ in most cases of Identified Sickness



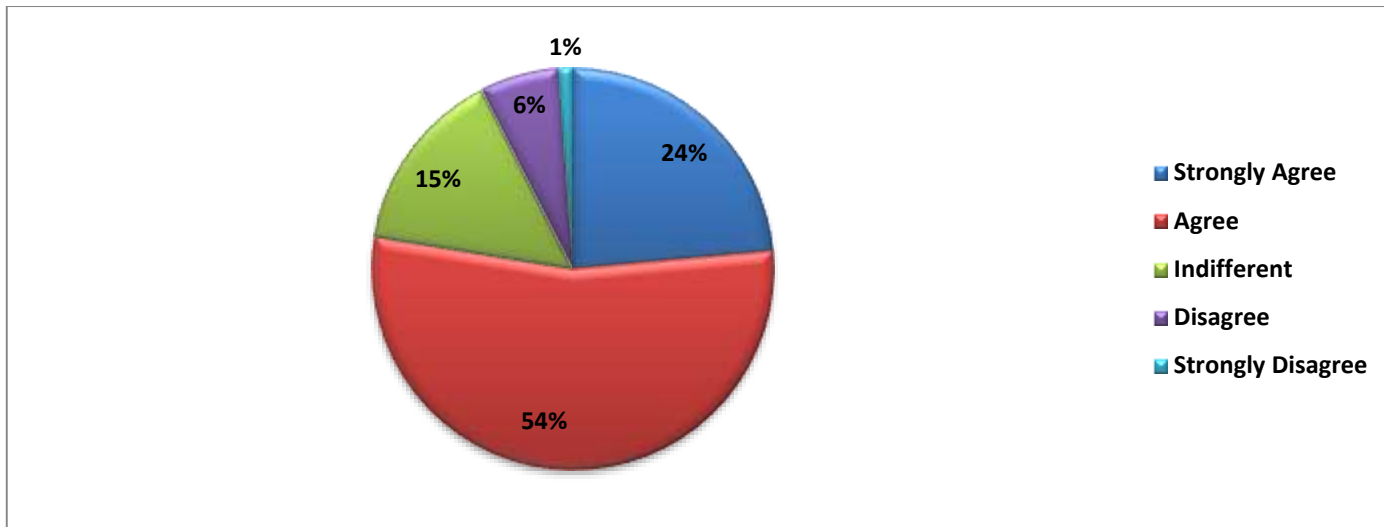
While discussing the cases of identified sickness with the survey participants , 89.60% the Survey Respondents were of the opinion that the Banks & Term Lending Institutions have had to take an “ HAIR CUT ” in most of the cases of Identified Sickness

Chart 18 :Sustainable Structuring of Stressed Assets (S4A Guidelines)



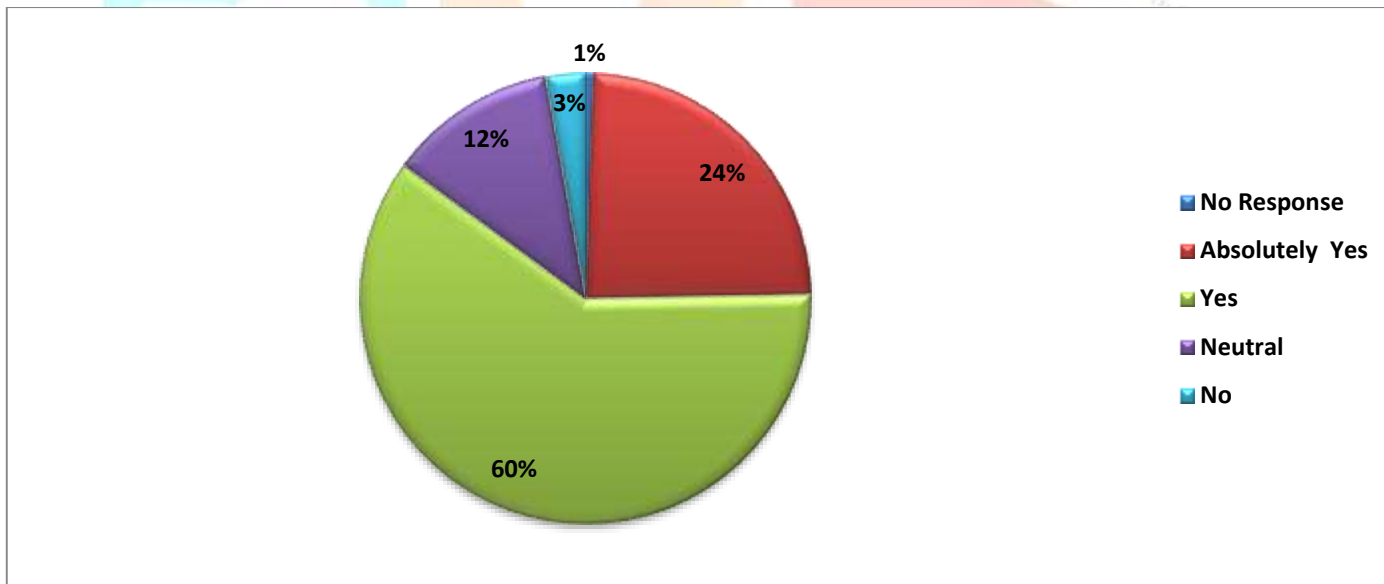
On Stressed Assets Management , 64.30% of the Survey Respondents accepted that the RBI Guidelines on Sustainable Structuring of Stressed Assets (S4A) which allows the banks to bifurcate the debt of stressed borrowers into sustainable & unsustainable portions would further strengthen the lenders ability to deal with stressed assets.

Chart 19 : Performance of ARC’s in Resolution of Stresses Assets



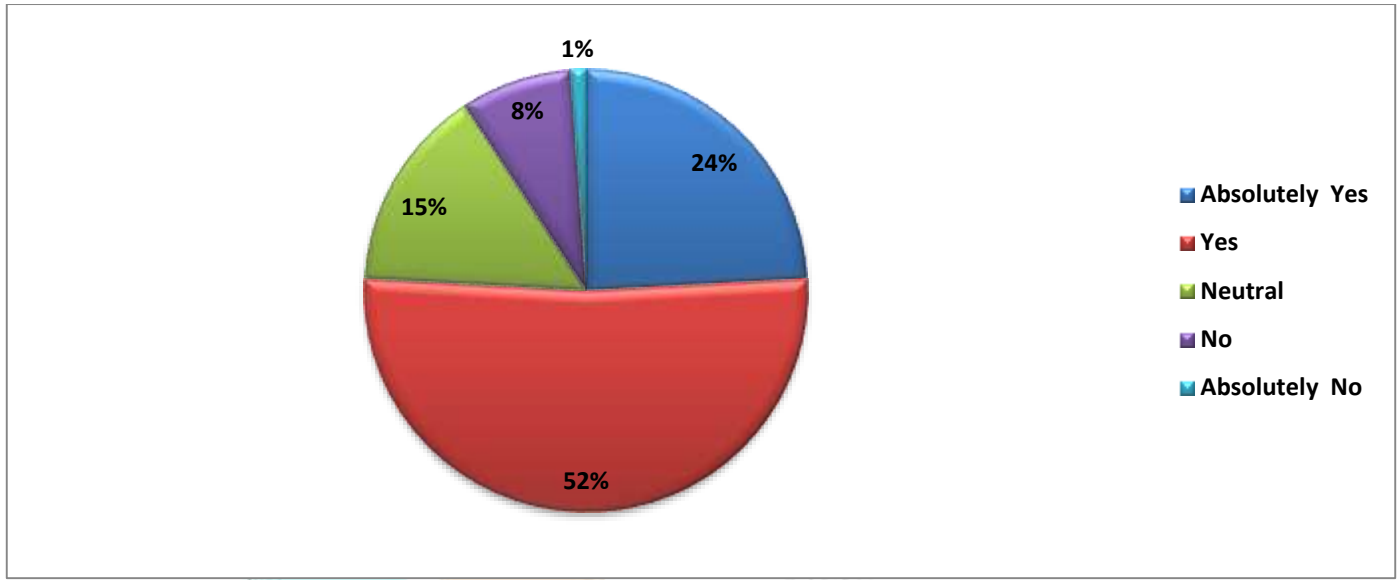
In response to the Role & performance of ARC’s , 77.6% Respondents agreed that the Asset Reconstruction Companies had performed poorly in resolution of Stressed Loans in India so far and that Capital Remains a key challenge for the ARC Industry.

Chart 20 : Valuation Mis Match between ARC’s and Seller Banks



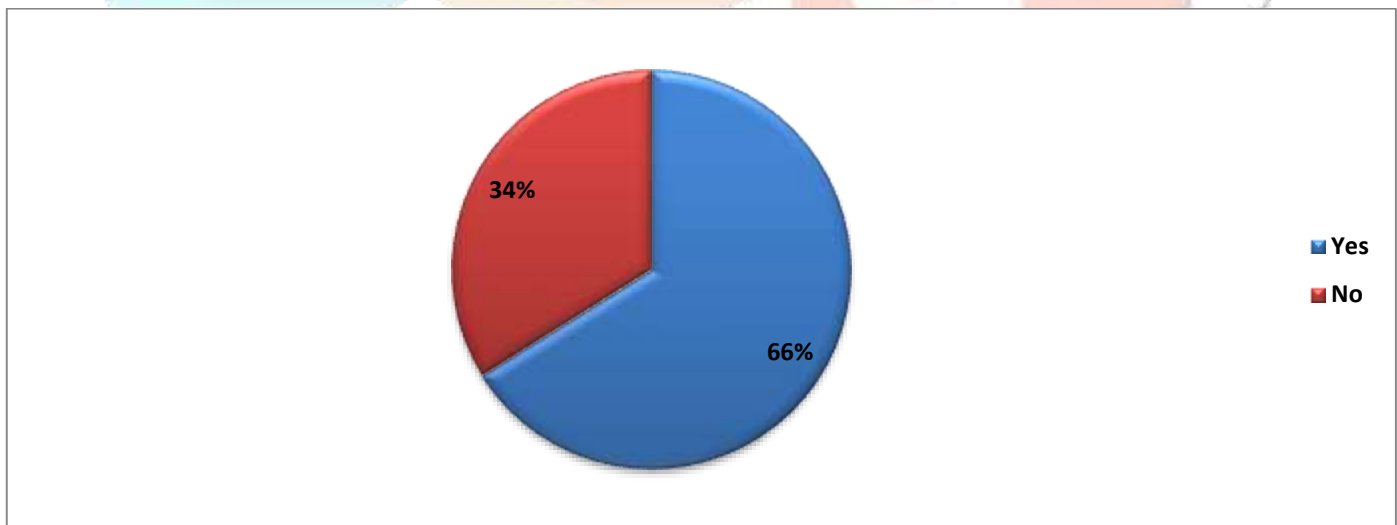
In continuation to the Role of ARC’s , 84.40% of the Respondents strongly believed that the valuation Mismatch between the ARC’s and the Seller Banks has been the most significant hindrance to the sale of stressed Assets to ARC’s in India .

Chart 21 : Ecosystem under the Insolvency & Bankruptcy Code 2016



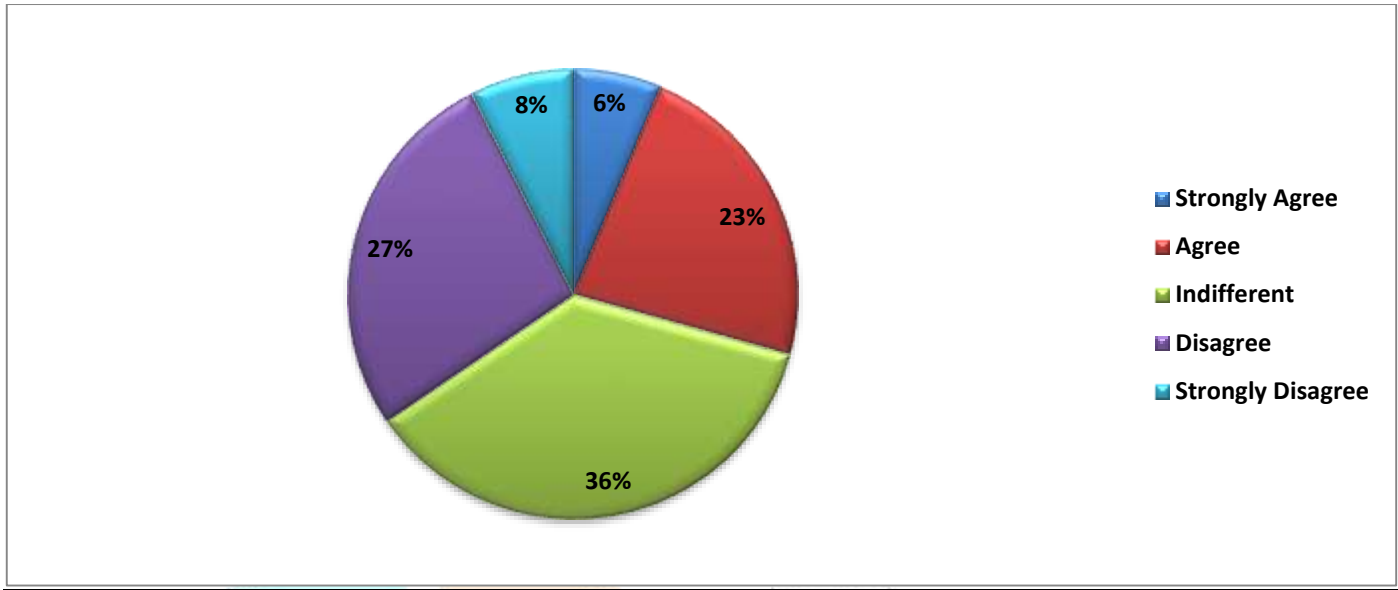
On the enactment of the Insolvency & Bankruptcy Code 2016 , 75.30% of the respondents accepted that the Ecosystem under the Insolvency & Bankruptcy Code 2016 i.e Establishment of Regulator, Information Utilities , Insolvency Professionals, Procedural Modalities and increasing the Number of NCLT's & DRT's would take time .

Chart 22 : Inter Creditor Conflicts may delay the Revival Plan



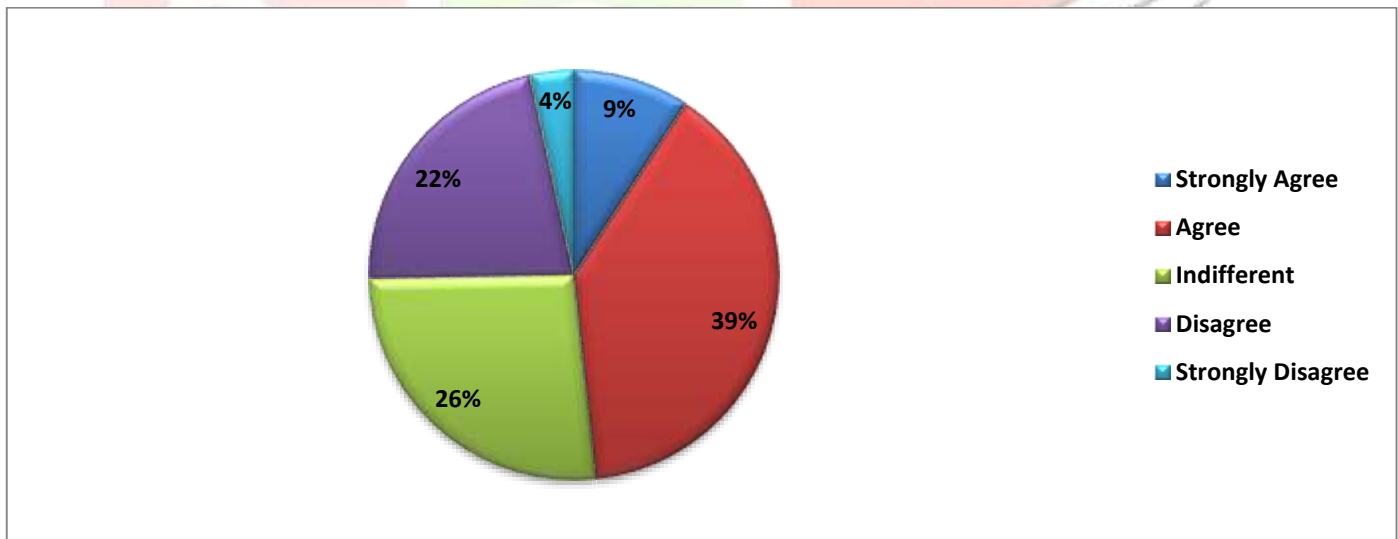
Further to the establishment of the Eco system under the IBC 2016 , 66% of the Survey Respondents were emphatic that the Inter Creditor Conflicts (Secured & Unsecured) may delay agreement to Revival Plan beyond 180 days and may lead to automatic liquidation .

Chart 23 : Establishment of “ Bad Bank “ - A good idea to tackle distressed assets



In the concluding part of the questionnaire while discussing the Next Steps and that New Ideas that were required to be tested, 35.60% of the respondents were neutral there by implying that they were unable to take a clear stand on the issue whereas 27% disagreed while 23% were in agreement to the idea of an Bad Bank and felt that it would be a good idea to tackle the distressed assets problem.

Chart 24 : A Good Idea to “Rate “ all the NPA’s



Whereas 48.20% of the survey respondents were in agreement that In order to facilitate the sale of Bad Loans by banks, it would be a good idea again to rate all the NPA's so that a Uniform Pricing formula could be created.

Statistical Tools

We applied statistics using Chi-Square Test to analyse the results of data collected from the questionnaire. The Chi-square test is a statistical tool that determines whether two variables are independent or not. This nonparametric test is an overall measure of how close the observed frequencies are to the expected frequencies. For certain questions in the questionnaire of the survey, Chi square values were calculated using the SPSS :

1. Some of the Units are Born Sick on Account of account of ill Conceived projects , Wrong choice of location , wrong product selection , inadequate market survey etc.

Hypothesis	H ₀ : Some of the Units are not Born Sick H ₁ : Some of the Units are Born Sick
Degree of Freedom	4
Computed Value of Chi Square X ²	168.356
Table Value of X ²	9.488
Interpretation	Since the Computed Value of X ² 168.356 is greater than the Table Value of X ² 9.488 the Null Hypothesis is rejected and the Alternate Hypothesis is accepted i.e Some of the Units are Born Sick .

2. Frequent Defaults in Payment of Interest & Term Loan Installment is the best indicator of sickness up of amongst the various other indicators like Piling up of inventory, Reducing Net Profit % to Sales, Short Term Borrowings at High Interest rates, Steady Reduction in Turnover, Frequent Requests for Temporary Overdraft to bankers, High level of turnover of personnel, changes in accounting with a view to window dress , delay in finalization of accounts, high level of debtors & creditors.

Hypothesis	H ₀ : Frequent Default in Payment of Interest & Term Loan Installment is not the best indicator of sickness. H ₁ : Frequent Default in Payment of Interest & Term Loan Installment is the best indicator sickness
Degree of Freedom	9
Computed Value of Chi Square X ²	251.632
Table Value of X ²	16.919
Interpretation	The Null Hypothesis is rejected and the Alternate Hypothesis is accepted i.e Frequent Default in Payment of Interest & Term Loan Installment is the best indicator sickness

3.Mis Management by Top Management is a Major cause of sickness amongst other causes like poorly conceptualized projects, over optimistic business plans, cost over runs , highly leveraged capital structure, delayed approvals by local management etc.

Hypothesis	<p>H_0 : Mis Management by Top Management is not a major cause of sickness..</p> <p>H_1 : Mis Management by Top Management is a major cause of sickness.</p>
Degree of Freedom	1
Computed Value of Chi Square X^2	132.782
Table Value of X^2	3.841
Interpretation	Since the Computed Value of X^2 132.782 is greater than the Table Value of X^2 3.841 the Null Hypothesis is rejected and the Alternate Hypothesis is accepted i.e. Mis Management by Top Management is a major cause of sickness

4.Monitoring the End use of funds versus the purpose for which they were sanctioned by banks shall act as an early warning signal for banks and term lending institutions.

Hypothesis	<p>H_0 :Monitoring the end use of funds versus the purpose f or which they were sanctioned does not act as an early warning signal for banks and term lending institutions.</p> <p>H_1 : Monitoring the end use of funds versus the purpose f or which they were sanctioned does act as an early warning signal for banks and term lending institutions.</p>
Degree of Freedom	3
Computed Value of Chi Square X^2	136.897
Table Value of X^2	7.815
Interpretation	Since the Computed Value of X^2 136.897 is greater than the Table Value of X^2 7.815 the Null Hypothesis is rejected and the Alternate Hypothesis is accepted i.e Monitoring the end use of funds versus the purpose f or which they were sanctioned does act as an early warning signal for banks and term lending institutions.

5. BIFR has failed in achieving its objectives of determining, assisting and reviving those that may be viable and shutting down others, since it has been misused by the promoters to delay legal action by lenders for debt recovery.

Hypothesis	<p>H_0 : BIFR has not failed in its objectives since it has not been misused by the promoters to delay legal action by lenders for Debt Recovery.</p> <p>H_1 : BIFR has failed in its objectives since it has been misused by the promoters to delay legal action by lenders for Debt Recovery</p>
Degree of Freedom	1
Computed Value of Chi Square X^2	143.471
Table Value of X^2	3.841
Interpretation	<p>Since the Computed Value of X^2 143.471 is greater than the Table Value of X^2 3.841 the Null Hypothesis is rejected and the Alternate Hypothesis is accepted i.e BIFR has failed in its objectives since it has been misused by the promoters to delay legal action by lenders for Debt Recovery</p>

6. CDR (Corporate Debt Restructuring) has been useful & successful in revival of units in genuine cases wherein consortium funding by banks and financial institutions has been involved.

Hypothesis	<p>H_0 : CDR has not been useful & successful in revival of units in genuine cases wherein consortium funding has been involved.</p> <p>H_1 : CDR has been useful & successful in revival of units in genuine cases wherein consortium funding has been involved.</p>
Degree of Freedom	4
Computed Value of Chi Square X^2	91.805
Table Value of X^2	9.488
Interpretation	<p>Since the Computed Value of X^2 91.805 is greater than the Table Value of X^2 9.488 the Null Hypothesis is rejected and the Alternate Hypothesis is accepted i.e CDR has been useful & successful in revival of units in genuine cases wherein consortium funding has been involved.</p>

7. Banks & Term Lending Institutions have had to take an “Hair Cut “ in most of the cases of identified sickness.

Hypothesis	<p>H_0 : Banks & Term Lending Institutions have not had to take an Hair Cut in most cases of identified sickness.</p> <p>H_1 : Banks & Term Lending Institutions have had to take an Hair Cut in most cases of identified sickness.</p>
Degree of Freedom	3
Computed Value of Chi Square X^2	134.552
Table Value of X^2	7.815
Interpretation	Since the Computed Value of X^2 134.552 is greater than the Table Value of X^2 7.815 the Null Hypothesis is rejected and the Alternate Hypothesis is accepted Banks & Term Lending Institutions have had to take an Hair Cut in most cases of identified sickness

Standard Deviation:

We also applied descriptive statistics; ‘Standard Deviation’ in our study as it provides an indication of how far the individual responses to a question deviate from the mean. It is the most commonly used measure of variation. It is widely used by researchers as it gives an indication of the average distance from the mean. A low standard deviation would mean that most observations cluster around the mean. A high standard deviation would mean that there was a lot of variation in the answers.

Table 1: Descriptive Statistics performed in SPSS

Question	N	Min	Max	Mean		Standard Deviation
				Statistic	Std Error	
Some of the Units are Born Sick	174	1	5	1.9	0.066	0.867
Best Indicator of Sickness	174	1	10	3.71	0.239	3.157
Mis Management by Top Management is a major cause of Sickness	174	1	2	1.06	0.019	0.244
Types of Mis Management by Top Management	174	0	7	4.9	0.109	1.437
Which Sector was badly affected by Sickness	174	1	6	2.26	0.109	1.441
Region is maximum Industrial Sickness	174	1	4	2.37	0.094	1.237
Existing Legal Frame Work : Availability of Multiple & Overlapping Remedies	174	1	2	1.24	0.033	0.429
The Insolvency & Bankruptcy Code 2016 : A Game Changer	174	1	4	1.91	0.063	0.832
Ratio Analysis : Good Tool to timely identify sickness	174	1	5	2.27	0.068	0.894
Identification of Early Signs of Stress	174	1	4	1.70	0.049	0.640
RBI Guidelines on Classification of Accounts	174	1	5	2.06	0.057	0.746

Credit Rating Agencies : An important Component in the Value Chain of Credit Risk Management	174	1	5	2.39	0.065	0.857
Timing of Revival & Rehabilitation of Units	174	1	4	2.59	0.077	1.015
BIFR : Misused by promoters to delay Legal Action by Lenders	174	1	2	1.05	0.016	0.210
CDR – Useful in Revival & Rehabilitation	174	1	5	2.79	0.074	0.981
“ Hair Cut “ in most cases of Identified Sickness	174	1	4	1.77	0.048	0.631
Sustainable Structuring of Stressed Assets (S4A Guidelines)	174	1	5	2.41	0.064	0.840
tPerformance of ARC’s in Resolution of Stresses Assets	174	1	5	2.07	0.065	0.860
Valuation Mis Match between ARC’s and Seller Banks	174	1	4	1.94	0.052	0.690
Ecosystem under the Insolvency & Bankruptcy Code 2016	174	1	5	2.10	0.068	0.900
Inter Creditor Conflicts may delay the Revival Plan	174	1	2	1.34	0.036	0.475
Establishment of “ Bad Bank “ - A good idea to tackle distressed assets	174	1	5	3.06	0.078	1.027
A Good Idea to “Rate “ all the NPA’s	174	1	5	2.71	0.077	1.019

8. Conclusion:

Responses to the Survey Questionnaire clearly affirm that that some of the units are born sick , that frequent defaults in payment of interest & terms loans was a good indicator of sickness, Mis Management by the Top Management is a major cause of sickness, funds are not being utilized for the purposes for which they are being sanctioned but are being siphoned off , multiplicity and Overlapping remedies is a major shortcoming in the existing legal frame work of insolvency & bankruptcy , however the enactment of IBC 2016 is definitely a game changer while its eco system shall take time to establish , identification of early signs of stress , ratio analysis and classification of accounts are good tools for timely detection of industrial sickness . Meanwhile Units approach banks much after sickness has been diagnosed , though BIFR has failed in achieving its objectives since promoters use it to delay legal action , CDR has been successful in genuine cases of consortium finding , moreover Banks have definitely had to take hair cuts in cases of identified sickness , ARC’s have shown a very slow success rate due to valuation Mis match with the Banks. However the concept of formation of a Bad Bank and rating of NPA’s to facilitate sale of NPA by banks has not found favour as yet.

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