

SICKNESS IN MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

Dr. JMJ. Vinodini

Assistant Professor
Department of econometrics
S. V University
Tirupati- 517502

ABSTRACT: Sickness in industrial units is a gradual process and does not develop suddenly. In the initial stages, it gets reflected in the form of defect and mistakes in the unit's functional areas like production, finance and management. Later it is observed in the form of symptoms like irregular or unsatisfactory turnover in the account, slow and unsatisfactory movement of stocks, decline in production, sales and profitability, frequent violation of terms and conditions and asking for additional grants. The other common problems faced by MSME towards the creation of excess capacity: absence of comprehensive data, under-utilization of installed capacity, inadequate planning production, persistent recessionary condition, shortage of raw material. In this chapter an attempt is made to review the sickness in MSME units at a national level.

Introduction

MSME sickness is a significant problem in many market economies. In the Indian private sector, it has been estimated that currently over 450 large manufacturing units and over 125,000 small units are sick, with more than rupees four thousand crore (over \$ 3 billion) of the funds of financial institutions and banks tied up in these sick units. In India, the amount of funds of financial institutions tied up in defaulting accounts may be growing at over 10 per cent per annum, and therefore, may double every seven years.

In India and elsewhere in the Third World, the problem of sickness is likely to grow worse. The number of new units coming up in India every year has grown over ten times since independence to around 60,000 registered new manufacturing units a year, thanks to various incentives offered by the government, the financial support provided by the apex and state level financial institutions, and the facilities provided in industrial estates. The percentage of entrepreneurs receiving any sort of training in setting up and managing units is minuscule. Inadequate capacity to manage units may mean more and more units becoming sick. Besides, liberalization of the economy is likely to accelerate the pace of entrepreneurship.

A Reserve Bank of India study indicated that 84 per cent of sick large firms for which viability studies were conducted were considered to be potentially viable, though only about 10 per cent of the small units were so considered. The sick industrial companies (special provision) Act 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses equaling or exceeding the net worth of the company at the end of the second financial year.

The identification of sick units has been modified as under: 'A MSME unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years' (Bihar Chambers of Commerce, Sep. 1989).

The Reserve Bank of India considers a unit as sick if it has incurred a cash loss for a year and is likely to incur a cash loss in the current and coming years, along with a poor financial structure (current ratio less than 1:1, worsening debt equity ratio). The Indian term lending financial institutions tend to consider a unit as sick if it has consecutively defaulted for four half-yearly loans and interest installments due to the financial institutions, has made cash losses for two consecutive years, or has lost its net worth by 60 per cent, and has mounting arrears of statutory and other liabilities.

A unit is sick if its financial performance is well below its performance potential. An operational way of judging this is to compare the unit's current financial performance with its performance in the past during comparable business conditions, and to compare its current performance with other comparable units in the industry known to be efficiently managed. These two comparisons should provide a rough indication of how far the units are operating below its performance potential. Thus, a unit may be considered sick if it is operating way below its or defaulting) and the prospects are that it will continue to operate below its performance potential.

REASONS OF SICKNESS

Units satisfying one or more of the above criteria were treated by enumerators as not being run satisfactorily and the reasons for the same were elicited.

Internal causes

(1) Inadequate management. Excessively cautious, bureaucratic permissive, or authoritarian management. Weak board and watchdog function, lack of management depth. (2) Unprofitable acquisitions, expansions, poor choice of plant or technology, growth mania. Neglect of core business in the drive for diversification. Poor post-acquisition management. (3) Lack of financial control and proper accounting information. Inability to pinpoint which products and customers are profit yielding, which loss

Assistant Professor, Dept. of Econometrics, S.V. University, Tirupati.

making. (4) Poor marketing and distribution. Poorly motivated or trained sales force, ineffective advertising and promotion. Poor after sales service, lack of focus on key products and customers. No new product development. (5) Overtrading; inadequate working capital to finance sales growth, proliferation of low margin or loss making sales. (6) Poor financial policies - excessive leverage, low profit retention for reinvestment, short term borrowing for long term needs, etc. (7) Big projects with long gestation periods, start-up difficulties, poor timing, under-estimated costs and over-estimated returns, high market entry costs. (8) The unresponsiveness of the firm to market and technological changes. (9) High unit costs relative to competitors due to unfamiliarity with business, or inability to take advantage of economies of scale, or lower market share or vertical integration compared to rivals, or government - imposed pollution control, social welfare, or other costs, or high overheads because of technology or plant choice, etc.

External Causes

(1) Increased competitive pressure on the firm. (2) Decline of market demand. (3) Adverse movement in input prices and interest rates, combined with price stagnation or decline in marketed products. (4) Strikes.

Objective of the Study

The major objectives of the present study are:

1. Analyse the growth and performance trends of MSMEs in India.
2. Identify the sickness, various strategies adopted for the revival of viable units relating to MSMEs.
3. Identify the various problems and future prospects associated with MSMEs.
4. Evaluate the government initiatives to revitalize the Indian MSMEs.
5. Make recommendations for further improvement of MSMEs in Indian scenario.

Sick Units in India

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 year from the commencement of the package from banks, financial institutions, Government (central and state) and other concerned agencies. Based on the nouns, the banks/financial institutions have to decide whether a sick small enterprise is potentially viable or not. 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 viable MSMEs unit in India are presented in Table-1. As at the end of March 2016, there were 97,856 sick MSMEs unit in the country. But at the end of March, 2016, there has been an increase in the number of sick MSMEs unit to 46,251. The number of sick MSMEs and the enterprises under nursing with the amount out-standing against them from March 2005 to March 2016 are as under.

Table-1 reveals that at the end of March, 2016, banks put only 23504 units under nursing which constituted approximately 4.89 per cent of the total sick unit. Number of enterprises put under nursing as percentage of total sick MSMEs at 4.17 per cent at the end of March, 2008-09 which is very low.

Table-1

Sickness Relating to MSMEs in India during from 1998-99 to 2015-16

| Year | Total sick MSEs | | Potentially viable | | Viable enterprises under nursing | |
|---------|-----------------|------------|--------------------|------------|----------------------------------|------------|
| | Number | Amount O/s | Number | Amount O/s | Number | Amount O/s |
| 1998-99 | 306221 | 4313.48 | 18692 | 376.96 | 12759 | 194.91 |
| 1999-00 | 304235 | 4608.43 | 14373 | 369.45 | 663 | 137.69 |
| 2000-01 | 249630 | 4505.54 | 13076 | 399.17 | 753 | 120.29 |
| 2001-02 | 177336 | 4818.95 | 4493 | 416.41 | 621 | 88.98 |
| 2002-03 | 167980 | 5706.35 | 3626 | 624.71 | 993 | 382.32 |
| 2003-04 | 241079 | 5662.48 | 3752 | 536.12 | 1022 | 342.21 |
| 2004-05 | 138041 | 5380.13 | 3922 | 434.67 | 2080 | 259.93 |
| 2006-06 | 126824 | 4981.13 | 4594 | 498.16 | 915 | 233.77 |
| 2006-07 | 114132 | 5266.65 | 4287 | 427.46 | 588 | 268.93 |
| 2007-08 | 85187 | 3082.72 | 4210 | 246.88 | 1262 | 126.92 |
| 2008-09 | 103996 | 3619.90 | 8168 | 731.68 | 2330 | 424.26 |
| 2009-10 | 77723 | 5233.15 | 9160 | 964.75 | 2360 | 478.84 |
| 2010-11 | 90141 | 5211.25 | 7118 | 1112.98 | 4698 | 518.30 |
| 2011-12 | 85591 | 6790.25 | 10315 | 1721.19 | 6648 | 468.25 |
| 2012-13 | 220492 | 12442.22 | 12936 | 3932.35 | 4489 | 3053.64 |
| 2013-14 | 465492 | 26310.81 | 37578 | 4659.74 | 15810 | 3516.63 |
| 2014-15 | 465226 | 23203.69 | 45604 | 6408.07 | 22185 | 4736.52 |
| 2015-16 | 480280 | 32674.42 | 46251 | 6890.61 | 23504 | 4644.09 |

Source: Different years of RBI reports

Companies Act 2013, it covers the revival and rehabilitation of all companies, irrespective of their sector. In accordance with the requirement of section 253 of the Act, 2013 a company is assessed to be sick on a demand by the secured creditors of a company

representing 50 per cent or more of its outstanding amount of debt-if the company has failed to pay the debt within a period of 30 days of the service of the notice of demand as well as failed to secure or compound the debt to the reasonable satisfaction of the creditors. To speed up the revival and rehabilitation process, the Revival and Rehabilitation of sick companies under Companies Act. 2013 provides a one year time period for the finalization of the rehabilitation plan.

Table-2 shows that during the year 2004-05 to 2013-14, the total outstanding credit by all scheduled commercial banks to MSMEs in India stood at Rs. 8,46,134 crore. Among bank categories, public and private sector banks have registered impressive growth in MSMEs lending in the year 2013-14. However, public sector banks account for a major share compared to private and foreign banks. In the year 2005-06, there was a growth of 21.59 per cent in comparison to the previous year 2004-05. Highest growth of credit achieved in the year 2007-08 i.e. 67.71 per cent with least growth i.e. 8.78 per cent seen during the year 2011-12.

Table-2
Status of Outstanding Bank Credit to MSMEs in India (Rs. in Crore)

| Years | Public Sector Banks(INR) | % to total | Private Sector | % to total | Foreign B | % to total | Total |
|---------|--------------------------|------------|----------------|------------|-----------|------------|--------|
| 2004-05 | 67800 | 81.39 | 8592 | 10.31 | 6907 | 8.29 | 83299 |
| 2005-06 | 82434 | 81.39 | 10421 | 10.29 | 8430 | 8.32 | 101285 |
| 2006-07 | 102550 | 80.54 | 13136 | 10.32 | 11637 | 9.14 | 127323 |
| 2007-08 | 151137 | 70.78 | 46912 | 21.97 | 15489 | 7.25 | 213538 |
| 2008-09 | 191408 | 74.73 | 46656 | 18.22 | 18063 | 7.05 | 256127 |
| 2009-10 | 278398 | 76.48 | 64534 | 17.73 | 21069 | 5.79 | 364001 |
| 2010-11 | 376625 | 77.50 | 87857 | 18.08 | 21461 | 4.42 | 485943 |
| 2011-12 | 396343 | 74.98 | 110514 | 20.91 | 21760 | 4.12 | 528617 |
| 2012-13 | 502459 | 73.12 | 154732 | 22.52 | 30020 | 4.37 | 687211 |
| 2013-14 | 615976 | 72.80 | 200138 | 23.65 | 30020 | 3.55 | 846134 |

Source: Different years of RBI reports

Major Problems faced by the MSMEs

MSMEs are very important in the economic growth of India but consequently it faces a number of problems which are as follows.

Lack of availability of adequate and timely credit from banks-Presently, high interest rates, high risk perception among the banks, unreasonable collateral demand, restrictive and conditional working capital limits and huge procedural transaction cost often creates problem for the MSMEs in availing easy credit from the banks as it does not have any alternative sources of finance.

Complex labour laws and red tape-All the laws and regulations related to the aspects of manufacturing and service units of MSMEs are very complex and practically very difficult to comply with.

Poor infrastructure-MSMEs in India are either located in industrial estates set up many decades ago or have come up in an unorganized manner in rural areas. Inadequate and unreliable infrastructure including power, roads, water etc. acts as a handicap in the emerging global market resulting to lower production capacity and higher production cost.

Lack of marketing and promotional support-MSMEs in India faces the problem of marketing its products due to insufficient finance and market intelligence amongst the entrepreneurs for their business development, unlike the multinational companies. Low technological level and lack of access to modern technology had a profound impact on the competitiveness of the MSMEs.

Issues relating to taxation (direct and indirect) and regulatory norms-Rigid, complex as well as cumbersome and time consuming regulatory norms create unnecessary problems in the functioning of MSMEs and therefore cost of doing business is much higher in India in comparison to other countries.

Initiatives Undertaken by the Government

The Ministry of MSME implements the following schemes and programmes for the upgradation of technology to revitalize the promotion of MSMEs.

ISO 9000/ISO 14001 certification reimbursement schemes-This scheme is introduced in March, 1994 to enhance the competitive strength of the MSMEs by way of technological upgradation, quality improvement and better environment or management. For acquiring quality management system ISO-9000 certification or environment management system ISO-14001 certification, this scheme reimburses 75 per cent of the fees, subject to a maximum of Rs. 75,000.

ii. Credit Linked Capital Subsidy Scheme (CLCSS)- It aims at facilitating technology upgradation by providing 15 per cent upfront capital subsidy to manufacturing MSMEs on institutional finance up to Rs. 1 crore availed by them for induction of well-established and improved technologies in the specified sub-sectors/products approved under the scheme.

iii. The MSE-Cluster Development Programme (MSE-CDP)-This programme is implemented for holistic development of selected MSEs clusters through value chain and supply chain management (skill development, technology upgradation of the enterprises,

improved credit delivery, marketing support, selling up of common facility centres) based on diagnostic studies carried out in consultation with cluster units on co-operative basis.

iv. Laghu Udyami credit card scheme (LUCCS)-It was introduced and implemented by the banks for providing borrower friendly credit facilities to small business, retail traders, artisans, small entrepreneurs, professionals and other self employed persons including those in the small sector in November, 2001. Credit limit per enterprise has been increased from Rs. 2 to Rs. 10 lakh having satisfactory record only.

v. National Equity Fund Scheme (NEF)-This scheme provide equity type (cost should not exceed Rs. 50 lakh) support to entrepreneurs for setting up new projects in small industrial sector for undertaking expansion, modernization, technology up gradation and diversification of existing MSEs and for rehabilitation of viable sick units.

vi. Credit Guarantee Fund Trust Scheme for Micro and Small Industries (CGFTSI)-This scheme covers collateral free credit facility to new and existing MSMEs up to a maximum limit of Rs.10 lakh to realize the small entrepreneur's dream of making it big and successful.

vii. Scheme of Fund for Regeneration of Traditional Industries (SFURTI)-To establish a regenerated, holistic, sustainable and replicable model of integrated cluster-based development of traditional industries in khadi, village and coir sectors with an intention to make more productive and competitive and increases the employment opportunities in rural and semi-urban areas, this scheme was launched in 2005.

Recommendations

To enable MSMEs to be competitive in domestic and global market, a few recommendations are given below to overcome the problems.

- Providing credit to the MSMEs at base rate and devise a strategy for cost effective finance and improve the delivery points for credit to MSMEs in tens of quantity and quality.
- Providing better infrastructure facilities like roads, rail, ports, airports, water, sewage and power should be ensured.
- Enhancing skill among the work force to meet industry requirements.
- Relaxing complex labour laws for better compliance.
- Suggesting measures to prevent industrial sickness and revival of viable sick units.
- Adopting total quality management and ISO standards in MSMEs units.
- Promoting quality competitiveness and research and development for strengthening the MSMEs units.
- Treating the employees of MSMEs as an asset and give them recognition with an eye towards the need to improve their skill.

Conclusion

In a nutshell, MSMEs have emerged as an engine of growth in Indian economy by way of their significant contribution to GDP and industrial production. The MSMEs needs to improve its productivity and quality reduce costs and innovate. Government policy should help MSMEs to increase their efficiency and competitiveness within a market driven economy. In order to prevent the major sickness in MSMEs, new approaches like the cluster approach or harnessing the power of industry association should be encouraged. To keep this growth engine on the right path and direction, it is necessary to put emphasis on the formulation of friendly policies, conducive operating environment, improvement of proper infrastructure, securing peace and security, arranging proper finance, efficient manager and arranging appropriate modern technology for MSMEs.

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