REPORT OF THE STUDY GROUP TO EXAMINE THE ISSUES RELATING TO THE SETTING UP OF

SOFT LOAN ASSISTANCE FUND

FOR REHABILITATION OF SICK SMALL SCALE INDUSTRIAL UNITS

RESERVE BANK OF INDIA
PLANNING AND CREDIT DEPARTMENT
CENTRAL OFFICE
BOMBAY 400 023

Report of the Study Group to Examine
The Issues Relating to the Setting up of

SOFT LOAN ASSISTANCE FUND

For Rehabilitation of
Sick Small Scale Industrial Units

RESERVE BANK OF INDIA
RURAL PLANNING AND CREDIT DEPARTMENT
CENTRAL OFFICE
BOMBAY 400 023

First Published July 1985

Price : (Including Postage)
Inland — Rs. 12.00
Abroad — U.S. $ 4.00

Published by Shri R. P. Satpute, Chief Officer, Rural Planning and Credit Department, for the Reserve Bank of India, Central Office, Bombay-400 023 and printed by Shri George Thomas at Karnatak Orion Press, Bombay-400 001.

CONTENTS

List of Annexures

REPORT OF THE STUDY GROUP TO EXAMINE ISSUES RELATING TO THE SETTING UP OF SOFT LOAN ASSISTANCE FUND FOR REHABILITATION OF SICK SMALL SCALE INDUSTRIAL UNITS

Presentation

A High Powered Committee on the problems of sick units constituted in October 1978 under the Chairmanship of the then Union Finance Minister observed as under (vide paragraph 14 of its report).

"....................................banks are at times lax to give relief in the nature of rescheduling of interest to small units, because of repercussions on the banks' working. In major cases of sick units, in the small scale sector, relief in the nature of rescheduling of interest, moratorium on interest, etc. become unavoidable to make such units viable over a period of time. To ensure that banks do not deny such relief in deserving cases, the question of setting up a Soft Loan Fund was considered. It was felt that such a Fund could be set up with Reserve Bank of India taking initiative in the matter along with banks. The assistance from this Fund in the nature of loan on soft term could flow to those banks which, as part of relief package, grant rescheduling of interest, moratorium on interest, etc. so as to rehabilitate the small scale units."

Pursuant to the recommendation, the question of formation of a Soft Loan Fund was examined internally by the Reserve Bank of India. The data collected for the purpose on the basis of the information available with the Bank were found inadequate in many respects. It was felt that on the basis of these incomplete data, it would not be possible to evolve parameters for determining the eligibility of units for assistance as well as the nature and quantum of assistance. It was, therefore, considered desirable to seek help from financial institutions and banks which are actually operating schemes for nursing sick units. Accordingly, a Study Group was appointed by the Reserve Bank of India on March 27, 1980 to examine the various issues related to the setting up of a Soft Loan Assistance Fund for rehabilitating sick small scale industrial units. The composition of the Group was as under :

1. Dr. P. D. Ojha, — Chairman
   Executive Director,
   Reserve Bank of India,
   Central Office, Bombay.

2. Shri C. R. Sen Gupta* — Member
   Executive Director,
   Industrial Development Bank of India,
   Bombay.
   *Substituted by Shri S. M. Palia,
   General Manager, IDBI.

3. Shri D. K. Gupta, General Manager, Punjab National Bank, Lucknow. — Member

4. Shri Parimal Mukherjee, Officer-in-Charge, Small Industries and Business Division, United Bank of India, Calcutta. — "

5. Shri K. Ramakrishnan*, General Manager (Operations), State Bank of India, Hyderabad. — "

*Substituted by Shri V. Srinivasan, Chief Regional Manager, SBI, Raipur, Madhya Pradesh.

6. Shri B. B. Shetty, Asstt. General Manager, Syndicate Bank, Head Office, Manipal, Karnataka. — "

7. Shri S. G. Pawar, Regional Manager, Maharashtra State Financial Corporation, Bombay Konkan Regional Office, Bombay. — "

8. Shri Devi Dayal*, Managing Director, Uttar Pradesh Financial Corporation, Kanpur. — "

*Substituted by Shri Hemendra Kumar, Managing Director, UPFC, Kanpur.

9. Shri A. Valliappan*, Managing Director, Andhra Pradesh State Financial Corporation, Hyderabad. — Member

*Substituted by Shri T. R. Prasad, Managing Director, APSFC, Hyderabad.

10. Shri R. C. Mody, Chief Officer, Industrial and Export Credit Department, Reserve Bank of India, Central Office, Bombay. — "

11. Shri I. D'Souza, Joint Chief Officer, Department of Banking Operations and Development, Reserve Bank of India, Central Office, Bombay. — "

12. Shri B. Y. Pandit, Joint Chief Officer, Industrial and Export Credit Department, Reserve Bank of India. Central Office, Bombay. — Member-Secretary

The secretarial assistance was to be provided by the Industrial and Export Credit Department of Reserve Bank of India, Bombay. The terms of reference of the Study Group were as follows :

Terms of reference

(i) To examine, on the basis of case studies of typical sick units in the small scale industries sector, the factors which assist in the implementation of successful nursing programmes and those which operate against such success;

(ii) In particular, to examine whether some of the difficulties experienced by the development banks and commercial banks in evolving successful nursing programmes could not be overcome by providing these institutions with access to a Soft Loan Assistance Fund (SLAF);

(iii) To suggest the criteria on which assistance from SLAF may be provided and the terms and conditions thereof;

(iv) To examine whether the fund should provide (a) loan assistance to units on soft terms; (b) refinance to banks, State Financial Corporations (SFCs), etc. on soft terms for this purpose or (c) both these;

(v) To suggest methods of computation of cash losses of sick units in the small industries sector and the manner of sharing the existing as also future cash losses as between the financing agencies;

(vi) To indicate the size of SLAF, suggest the agencies/institutions which should contribute to the fund and the basis of such contribution;

(vii) To make suggestions in regard to the operations of SLAF in matters such as disbursal, repayment, recovery, etc. and

(viii) Any other related matter.

Group's meetings

The Group held meetings one each in Bombay, Trivandrum, Hyderabad, Kanpur and Bangalore. It decided to co-opt Shri B. Y. Pandit, Joint Chief Officer, Reserve Bank of India, Industrial and Export Credit Department, Bombay, as Member-Secretary.

We have to record with deep regret the passing away of Shri I. D'Souza in April 1983. We wish to keep on record our high appreciation of his valuable contributions to the deliberations of the Group.

The Group intended to finalise its report early. However, as the study progressed, it became evident that the issues were rather complex and their detailed examination could not be completed within a short time. One of the terms of reference of the Group was to examine, on the basis of case studies of typical sick units in the small scale industries sector, among other aspects, the factors which assist in the implementation of successful nursing programmes and those which operate against such success. The Group had, therefore, sought the help of the members to collect data in respect of cases handled by their institutions as the data available with the Reserve Bank were inadequate. The Group, however, did not receive sufficient number of cases and the data were found to be inadequate in several respects as pointed out in Chapter II of the report. This, apart from making the relevant statistical analysis less comprehensive and broadbased, rendered the work time consuming as clarifications/additional data had to be sought from credit institutions. Further, having established the need for setting up of the Fund, at one stage it was felt that it may be necessary to give an adequate legal and administrative status for the establishment and maintenance thereof, avoiding at the same time any amendment to the existing statutes which would be time consuming. This involved detailed examination of the relevant provisions in Industrial Development Bank of India and Reserve Bank of India Acts.

Overview of the Report

The broad framework of the report which consists of seven chapters is as follows:

Chapter I gives a background of the set up of small scale industries sector, its peculiarities, the magnitude and causes of sickness in it, the financial needs of sick units and the special problems in nursing them. In Chapter II, an attempt has been made to identify the problems of the credit institutions in nursing sick small scale industrial units. Chapter III has been devoted to review the schemes/facilities available at present for nursing sick units vis-a-vis the requirements of the units and the credit institutions and explore the need for setting up another Fund in view of the existing gap in meeting the requirements. Chapter IV covers the procedural aspects of the facilities that could be provided from the Fund and in Chapter V, suggestions have been made for the criteria to be adopted for eligibility of units for the purpose. The matters relating to administration, size and resources of the fund have been discussed in Chapter VI and other related matters in Chapter VII.

Acknowledgements

Shri W. S. Tambe, erstwhile Executive Director, Reserve Bank of India, who inaugurated the first meeting of the Group held in Bombay explained the difficulties in evolving the parameters needed for converting the concept of Soft Loan Assistance Fund (SLAF) into an action plan on the basis of available data with RBI and gave broad guidelines for approaching the subject. In the second meeting, representatives of Industrial Reconstruction Corporation of India Ltd., Kerala State Small Industries Development and Employment Corporation Ltd. and Kerala Financial Corporation were invited to participate in the deliberations. Shri C. R. Sen Gupta of IDBI was represented by Sarvashri K. S. Shankaranarayanan, Deputy General Manager and M. V. Radhakrishnan, Manager at the second, Shri S. M. Chitnis, General Manager at the third and Shri M. V. Radhakrishnan at the fourth meet-

ings. Shri D. K. Gupta, General Manager, Punjab National Bank, could not attend the first four meetings of the Group for health reasons and was represented by local officials of the bank. Shri K. Ramakrishnan, General Manager (Operations), State Bank of India, Hyderabad, who was originally a nominee of the bank on the Group was invited to attend the third meeting at which the draft of the report was considered. Shri B. S. Patil, Managing Director of Karnataka State Financial Corporation, Shri S. M. Chitnis, General Manager, IDBI and Shri M. R. Kotdawala, Chief Officer, Rural Planning and Credit Department, Reserve Bank of India attended the last meeting as invitees. We are thankful to these officials who spared their valuable time and made useful contributions. We are also thankful to the Industrial and Export Credit Department, Reserve Bank of India, for providing excellent secretarial services. We are particularly indebted to Shri B. Y. Pandit, Member-Secretary, Shri N. V. Phatak, Asstt. Chief Officer and other officials Sarvashri S. Govindarajan, J. N. Deodhar, G. V. Subramanian and L. R. Sundararajan for their valuable assistance and organising the work of the secretariat.

(P. D. Ojha)
Chairman

(R. C. Mody) (V. Srinivasan)

(S. M. Palia) (D. K. Gupta)

(Hemendra Kumar) (B. B. Shetty)

(T. R. Prasad) (Parimal Mukherjee)

(S. G. Pawar) (B. Y. Pandit)

SUMMARY OF MAIN RECOMMENDATIONS

(Grouped according to the agency
which has to initiate action)

A. Government of India/Industrial Development Bank of India (IDBI)

(i) A gap both in respect of volume and nature of assistance needed by the credit institutions in encouraging them to nurse sick small scale units fully and in a meaningful way has been identified and the difficulties could be overcome by setting up a special Soft Loan Assistance Fund for the purpose. [Paragraph 4.2]

(ii) As the activities envisaged for the Fund form a part of the general business of IDBI which has built up expertise in overseeing the development of small scale industries through commercial banks and SFCs, IDBI should be entrusted with the administration of the Fund. [Paragraph 6.1]

(iii) In view of the concessional rates of interest to be charged for assistance from the Fund, the Group recommends that a part of IDBI's borrowings from Government to be utilised exclusively for the purpose of the Fund should be interest free and/or Government should partly subsidise the loans from the Fund to the extent of the difference between the normal lending rates of Government and the rates recommended by the Group for soft loan lending under SLAF. [Paragraph 6.8]

(iv) Grant of rehabilitation finance for sick units recommended by the Group satisfies the criteria mentioned in Sections 16(2) and 16(3) of the IDBI Act, 1964 relating to Development Assistance Fund (DAF) and, therefore, it should be possible for Government to make available adequate resources to IDBI on the analogy of DAF. [Paragraph 6.9]

(v) In the event of the Fund being set up, it may not be necessary for the Government of India and State Governments to operate the margin money scheme for revival of sick units. The funds earmarked for this scheme should be made available to IDBI for the purpose of augmenting the resources of SLAF. [Paragraph 6.10]

(vi) IDBI pays interest tax on its interest earnings on its loaning activity out of the General Fund and Development Assistance Fund. The tax aggregated Rs. 3.43 crores in 1980-81 and Rs. 6.61 crores in 1981-82. The tax liability for 1982-83 is expected to be of the order of Rs. 8.92 crores. With a reduction in the interest tax rate to 3.5 per cent in the current year, tax for the subsequent year is expected to be around Rs. 6 crores. Government of India may consider allowing the IDBI to retain the amount of interest tax and utilise it for the operations under SLAF. [Paragraph 6.11]

B. Industrial Development Bank of India (IDBI)

(i) As in the case of SFCs, commercial banks also grant term loans to small scale industrial units for acquisition of fixed assets. IDBI being the apex body for term lending institutions may consider designating banks as agents for the purpose of its Seed Capital Scheme. [Paragraph 3.23]

(ii) While considering the nature and form of assistance that could be granted from the SLAF, the following broad guidelines should be observed :

(a) Assistance from the Fund should not take the form of outright grant or subsidy.

(b) The element of concessionality in the assistance from the Fund should not be continued beyond the stage at which the unit gains strength to absorb normal cost and is in a position to start servicing and repaying nursing assistance.

(c) Support should be such as to enable the credit institutions to bear the inherent risk involved in the nursing programmes.

(d) Sharing of risk should be equitable between the banks, term lending institutions, Government agencies as also the borrower. [Paragraph 4.5]

(iii) The twin objectives of providing assistance from SLAF should be (a) to ensure that the sick units to become viable are enabled to borrow further for their continuous future operations from banks and

SFCs by reducing the element of risk for the latter in lending to such units and (b) to reduce the interest burden of past borrowings which have become unproductive having been absorbed by cash losses. The Fund should provide both direct equity type loans to units and also refinance to credit institutions. [Paragraph 4.6]

(iv) Equity type of loans to units to be channelised through the 'lead credit institutions' should be sanctioned on the terms and conditions set out in paragraph 4.8 and 4.9. The main features are as under :

The quantum of the loan to be worked out, after taking into account additional funds brought in by the borrowers/promoters (10 per cent in the case of technician entrepreneurs and 20 per cent in other cases), should be to provide for margin money for additional working capital and term loans, Provident Fund dues and cash loss, if any, for the first year of the nursing programme. Rate of interest to be charged on this type of assistance should be nominal, say, 1 per cent per annum and the period of repayment should not exceed nine years, with an initial moratorium for payment of principal as well as interest not exceeding 5 years. These could be varied depending upon the profitability of the units. [Paragraphs 4.8, 4.9 and 4.10]

(v) With the extension of equity type support as suggested and the availability of credit guarantee cover from the Deposit Insurance and Credit Guarantee Corporation, the banks should have no hesitation in providing financial support for the cash losses of the units to the extent they devolve on them. Banks should also advance amounts needed by the units to pay the pressing liabilities and include them in term loans. These loans which would comprise clean irregularities and pressing liabilities should be granted on the terms and conditions mentioned in paragraph 4.13.

The other features are as under :

The interest burden of this loan is over and above that of normal borrowings and proves a drag on the profitability of the units. It is, therefore, necessary that rate of interest on this loan is concessional. In order to help the credit institutions to do so, they should have access to a cheap source of long term refinance in respect of these loans. SLAF should provide refinance to credit institutions in respect of clean term loans granted by them to sick small scale industrial units at 6 per cent in the case of units with composite loans upto Rs. 25,000/- per unit, 7 per cent in the case of units with borrowings upto Rs. 2 lakhs and 8.50 per cent in the case of units with borrowings over Rs. 2 lakhs. The credit institutions may be allowed to have a spread of 1 per cent per annum in the case of borrowings upto Rs. 2 lakhs and 2 per cent per annum in other cases, the incidence of tax being borne by credit institutions. The repayment of refinance by credit institutions should be linked to that of the loans by the units but the period of repayment of the refinance should not exceed nine years in any case. The refinance should, however, be repaid earlier if the nursing programme does not succeed and is given up. [Paragraphs 4.12 and 4.13]

(vi) The extent and period of concessionality in nursing finance need not be uniform throughout the period of the nursing programme in all cases. If on the basis of annual review, it is observed that the unit has turned the corner before the expected period, the repayment schedule should be advanced and/or concessions reduced. At the end of three years, a positive view should be taken about its health and capacity to generate surplus. [Paragraph 4.15]

(vii) IDBI should consider linking repayment of refinance by credit institutions to repayment of loans by units in the case of sick units assisted from SLAF and restore the quantum of refinance repaid to it in respect of such units. [Paragraph 4.18]

(viii) As, in the case of sick units, it is difficult for them to satisfy the norms prescribed by IDBI in regard to promoters' contribution, debt-equity ratio, debt-service coverage ratio, etc., IDBI should relax these norms where package of nursing programme has been worked out with assistance from the SLAF. [Paragraph 4.19]

(ix) For the purpose of SLAF, a sick unit may be defined as one which incurs cash loss for at least the previous accounting year and in the judgement of the bank(s) and/or financial institution(s), is likely to continue to incur cash loss in the current accounting year and has an erosion on account of cash losses to the extent of 50 per cent or more of net worth from the year in which the unit started incurring cash losses. [Paragraph 5.1]

(x) With a view to ensuring a time bound programme for examining the viability of a unit soon after it is identified as sick, financial institutions should initiate necessary measures for determining their viability, formulate the nursing programmes, if considered viable, and approach the SLAF authorities with concrete proposals for assistance within a period of twelve months from the date of identification of the units as sick. Proposals received thereafter should not be considered for assistance from the SLAF. [Paragraph 5.9]

(xi) The following broad criteria for determining the eligibility of sick units for assistance from SLAF should be followed :

(a) The unit should be sick as defined in paragraph 5.1.

(b) The unit's dealings with the credit institution in the past should have been satisfactory. There should have been no serious adverse features like diversion of funds for personal gains, fraudulent removal of security, recourse to practice of drawing bogus bills, irreconcilable dissentions among partners or other organisational problems of a serious nature.

(c) The unit can arrest cash losses within a period of 12 months and in exceptional cases within a period of 18 to 24 months, after bearing interest burden on current advances, including those for working capital and term loans (other than financial assistance from SLAF) at normal rates.

(d) The unit can be expected to start paying instalments in equity loan account commencing from at least the sixth year of operation of the rehabilitation programme and repay the liabilities in all the term loan accounts as scheduled in the nursing programme. [Paragraph 5.10]

(xii) For assistance to the units under SLAF, IDBI should rely on the concerned credit institutions for assessment of viability of units and preparation of package proposals for their nursing. The nursing programmes should be finalised by the 'lead institution' in co-ordination/consultation with other credit institutions and Technical Consultancy Organisations and Small Industries Service Institutes (SISI), if necessary. [Paragraph 6.2]

(xiii) The package of nursing assistance, including facilities proposed to be offered from SLAF, should be finalised by committees to be constituted by IDBI with a representative each from the 'lead institution,' IDBI, RBI and the Government representative on State Level Inter-Institutional Committee (SLIIC). [Paragraph 6.4]

(xiv) The work relating to sick units to be assisted with SLAF facility should be handled at the Regional/Zonal/Head Office level of the credit institutions. [Paragraph 6.5]

(xv) Assistance should be restricted to such eligible sick units as have not already been sanctioned nursing assistance by banks/ SFCs as on the date from which the facilities from the Fund become available. [Paragraph 6.6]

(xvi) On a very rough estimate, the size of the Fund initially may be of the order of Rs. 60 crores, for both the types of assistance. The Fund's requirements in the first year may be of the order of Rs. 10 crores. Subsequent augmentation could depend upon the progress made in rehabilitating sick small scale units and the quantum of funds needed for the same. [Paragraph 6.7]

(xvii) Having regard to the developmental nature of assistance, the Group feels that IDBI should create the Fund internally out of the various resources available for conducting its general business viz. borrowings/grants from Government of India, market borrowings, borrowings from RBI, etc. [Paragraph 6.8]

(xviii) The cost of administering the Fund is expected to be of a small order and could be absorbed by IDBI. [Paragraph 6.8]

(xix) A scheme to provide financial assistance on suitable terms to small scale units for modernisation would help prevent sickness. It is understood that the question of introducing such a scheme is under consideration of IDBI. IDBI should expedite formulation of the Scheme. [Paragraph 7.2]

(xx) IDBI which will be administering SLAF should collect and analyse adequate statistical data relating to industry-wise and region-wise distribution of sick units, undertake studies to locate their problem areas and find appropriate solutions by enlisting the support of District Industries Centres (DICs), SISIs or voluntary organisations. These studies could help Government in formulating policies. [Paragraph 7.6]

(xxi) With a view to improving the managerial competence of entrepreneurs in the small scale sector which is a major factor accounting for the success or failure of a unit, there should be educational programmes for the entrepreneurs on the various aspects of management - financial, production, personnel, marketing, export, etc. Though at present such programmes are being held, they are required to be replicated on a large scale jointly by banks and voluntary organisations. [Paragraph 7.7 (iv)]

C. Government of India

(i) At the time of formulation of nursing programmes to be considered by SLAF, there should be a firm commitment on the part of the concerned Government and statutory bodies to reschedule their dues with no penalties and at concessional rates of interest consistent with the spirit in which the 'package' for rehabilitation is drawn by the financial institutions. [Paragraph 4.11]

(ii) IDBI has not so far extended refinance facilities to co-operative banks other than the scheduled state co-operative banks. However, the question of extending refinance facilities to central and urban co-operative banks, on a selective basis, is under consideration of IDBI. Extension of refinance facility from IDBI to central and urban co-operative banks is necessary for assisting sick small scale units nursed by them. The Group was informed that the IDBI Board has already agreed in principle to provide this facility and that the proposal is pending with Government of India. [Paragraph 4.20]

(iii) The suggestion for setting up of a National Equity Fund made by several Working Groups/Committees on the problems of financing of small scale industries, which is pending with Government, should be considered for implementation early. [Paragraph 7.7 (ii)]

(iv) A serious limitation faced by credit institutions in extending equity assistance to small scale industrial units is that a predominantly large number of these units are non-corporate entities. To ease this constraint, the concept of limited partnership with a guaranteed minimum interest should be considered for implementation. [Paragraph 7.7 (iii)]

(v) Under the Bombay Relief Undertakings Act in Maharashtra State, certain creditors of a sick unit can be debarred from going in for liquidation proceedings to recover their dues by declaring the unit as a relief undertaking under the said Act. A sick unit assisted from SLAF should, as a matter of policy, be declared as a relief undertaking under similar Acts in the States wherever they exist and the States where such Acts do not exist may consider enacting suitable legislation for protecting sick units under rehabilitation programmes. [Paragraph 7.7 (v)]

(vi) State Governments should provide active support to sick units assisted from SLAF in the following areas :

(a) Preferential treatment in the matter of supply of raw material/s, electricity, etc.

(b) Early clearance for sale/lease of land of the sick units under Urban Land (Ceiling & Regulation) Act to augment the funds with the sick units if nursing programmes so contemplate.

(c) Preference in Government purchases over and above those normally admissible to the units in the SSI sector. [Paragraph 7.7 (vi)]

(vii) The Reserve Bank of India has appointed a Committee headed by Shri T. Tiwari, Chairman, Industrial Reconstruction Corporation of India Limited (IRCI) to examine the legal and other difficulties faced by banks and financial institutions in rehabilitation of sick industrial undertakings and suggest remedial measures, including changes in the law. The Group feels that any other fiscal concessions or remedies which the Committee might recommend, to the extent relevant, may be extended to sick units in the small scale sector also. [Paragraph 7.7 (vii)]

D. Government of India/RBI

(i) The credit institutions may also enlist the support of the State Level Inter-Institutional Committees (SLIICs) functioning under the convenorship of the Regional Offices of the Rural Planning and Credit Department of the RBI. Government of India should advise the State Governments and other concerned agencies that representations on these Committees should be at a sufficiently high level so that the members who attend the meetings are in a position to give firm commitments in regard to inputs, infrastructural facilities, marketing and other related support to the units. [Paragraph 6.3]

(ii) A major problem area, both for units as well as credit institutions in framing and implementing the nursing programmes, is where the sickness is due to non-financial external factors such as non-availability of infrastructural facilities, power, essential raw material, etc. The responsibility for ensuring these inputs is that of several Government authorities. Obtaining their clearances and immediate implementation of the assurances given are difficult and time consuming. Delays in implementation of nursing programmes, apart from aggravating sickness and increasing the cost of projects, are likely to prove injurious in certain cases. The men behind the units are driven to desperation, especially in the case of smaller units which provide means of livelihood for their owners. This adversely affects the climate for growth of entrepreneurship. Time being the essence of implementation of the projects, it is necessary to provide an effective 'one window service' for obtaining clearances for all infrastructural facilities and assistance under various support schemes. In the limited context of nursing of sick units, the Group suggests that the SLIICs and District Industries Centres (DICs) should play such a role. [Paragraph 7.4]

(iii) Suitable measures should be taken to ensure prompt payment of dues to small scale industrial units by Government departments and public sector undertakings. SLIICs should take up the matter with the concerned Government departments and review the position in this regard periodically. [Paragraph 7.7 (i)]

E. **RBI/IDBI**

(i) The credit institutions should reschedule the repayment of term loans and accrued interest consistent with the projected profitability of the units. Penal interest charged, if any, should be waived. [Paragraph 4.16]

(ii) The credit institutions should reassess the working capital and term loan requirements of the units and extend need-based credit facilities as contemplated under the nursing programme to ensure unhindered operations of the units. [Paragraph 4.17]

(iii) A strategy for maintaining healthy growth of small scale industries sector would need a three pronged approach, preventing birth of unhealthy units, detection of sickness at the incipient stage and initiating quick remedial action. Reserve Bank and IDBI should issue suitable guidelines to banks and SFCs on the lines indicated in paragraphs 7.2 and 7.3.

F. RBI

According to Reserve Bank's directives, at present, the banks are required to obtain its prior approval for charging rates of interest lower than 13-1/2 per cent per annum (inclusive of tax) on advances sanctioned to sick units under nursing programme. The Group suggests that in the case of units to be assisted from the SLAF, the Reserve Bank may consider waiving the requirement of its prior approval for charging rates of interest on clean term loans as recommended in paragraph 4.13. [Paragraph 4.14]

CHAPTER - I

Nature and magnitude of the problem of sickness

1.1 It would be useful to have a broad idea of the financing pattern of small scale industries (SSI) sector, nature and magnitude of sickness and policy response to tackle the same. Financing pattern is reviewed in brief in Section I and the aspects relating to the problem of sickness, causes thereof and other related issues are discussed in the subsequent sections of this Chapter.

I

Financing pattern of SSI Sector

1.2 The small scale industries sector* comprises (a) modern small scale industries sector located mostly in metropolitan and urban areas+ (b) tiny sector** and (c) decentralised sector@. The existing institutional framework for the flow of financial assistance to the sector comprises banks (commercial banks, co-operative banks and regional rural banks), State Financial Corporations (SFCs), National Small Industries Corporation (NSIC), State Small Industries Corporations (SSICs) and certain specialised agencies (such as, the Khadi and Village Industries Commission). In addition, Industrial Development Bank of India (IDBI) assists the small scale industries sector indirectly by providing funds to banks and SFCs through its scheme of refinance and to some extent through its bills rediscounting scheme.

1.3 The commercial banks are the major source of institutional finance to the small scale industries sector. The small scale industrial units are included under 'priority sector' for the purpose of deployment

---

*A small scale industrial unit is normally defined as one having investment in plant and machinery not exceeding Rs. 20 lakhs and engaged in manufacturing, processing preservation and servicing activity. In the case of ancillary units, the 'small scale' definition is extended to cover units having investment in plant and machinery to the extente of Rs. 25 lakhs. subect to certain conditions regarding ownership, pattern of output, etc. Prior to July 23 1980 investment limits were Rs. 10 lakhs and Rs. 15 lakhs respectively.

+ Metropolitan areas are centres with population above 10 lakhs and urban areas are centres with population between 1 lakh and 10 lakhs according to 1971 census.

**Tiny sector includes industrial units located in villages and in towns with population not exceeding 50,000 (1971 census) and in which the original investment in equipment and machinery does not exceed Rs. 2 lakhs.

@The village and cottage industries broadly constitute the 'decentralised sector' which includes activities such as khadi, handlooms, sericulture, coir, handicrafts, etc. 'Village and Cottage Industries' cover artisans (irrespective of location) or small industrial activities (Viz. manufacturing, processing, preservation and servicing) in villages and small towns with a population not exceeding 50 000 (1971 census) involving utilisation of locally available natural resources and/or human skills (where individual credit requirements do not exceed Rs. 25,000/-).

of commercial bank credit. The co-operative banks provide credit facilities to weavers and other industrial co-operative societies for their production and marketing requirements. Refinance is provided by the Reserve Bank of India and the National Bank for Agriculture and Rural Development (NABARD) to co-operative banks against advances to eligible cottage and small scale industries at concessional rates of interest. The Regional Rural Banks (RRBs), which are yet to get into their stride, also provide credit to rural artisans and small entrepreneurs. The SFCs provide term loans and seed capital assistance to small scale industrial units. The NSIC and various SSICs provide, among other forms of assistance, hire purchase credit to the small scale industries sector.

1.4 A major portion of credit to the small scale industrial units by way of working capital finance and term loans is provided by commercial banks and SFCs. In order to augment the flow of institutional credit to the small scale industries sector, Government of India was operating through Reserve Bank of India a Credit Guarantee Scheme for small scale industries since 1960 affording a degree of protection to credit institutions against possible losses in financing these units. The scheme was cancelled on March 31, 1981 and a similar scheme (Small Loans (Small Scale Industries) Guarantee Scheme) is now operated by the Deposit Insurance and Credit Guarantee Corporation of India (DICGC) — a fully owned subsidiary of Reserve Bank of India with effect from April 1, 1981. Steps have also been taken in recent years to increase the flow of credit through 'composite loan'* and 'tiny units' concepts to industries in the decentralised sector at concessional rates of interest and liberal guarantee cover. The various measures taken by the Government of India and Reserve Bank of India have resulted in a steady growth in the flow of institutional credit to the small scale industries sector during the last two decades or so. The advances of scheduled commercial banks increased from Rs. 190 crores at the end of June 1968 to Rs. 4301 crores at the end of December 1982 (Annexure I). The term loans sanctioned by SFCs increased from Rs. 35.1 crores in 1970-71 to Rs. 340.0 crores in 1981-82 (Annexure II). Advances of Central Financing Agencies to weavers and other industrial co-operative societies and of urban banks to small scale industries increased from Rs. 29.87 crores at the end of June 1970 to Rs. 157.68 crores at the end of June 1980 (Annexure III).

---

*Term loan upto Rs. 25,000 for equipment finance or working capital or both.

1.5 A survey of small scale industrial units* assisted by commercial banks and other financial institutions conducted by Reserve Bank of India in 1977-78 has brought out certain revealing features of the pattern of financial assistance provided by institutions. Two tables, one showing the distribution of credit according to the form of organisation of the units and the other according to the size of investment in plant and machinery of the units are given on the following pages.

Table 1

Borrowings of small scale units according to type of organisation

(Rs. in crores)

Type of organisation	Estimated distribution of units (number)	Institutional credit	Non-institutional credit	Total credit
1	2	3	4	5
1. Proprietary	159183 (68.23)	270.99 (18.2)	73.77 (12.0)	344.75 (16.4)
2. Partnership	64717 (27.74)	762.33 (51.1)	383.76 (62.5)	1146.08 (54.4)
3. Private Ltd. Companies	7366 (3.15)	395.83 (26.5)	142.68 (23.3)	538.51 (25.6)
4 Others	1955 (0.85)	63.51 (4.2)	13.47 (2.2)	76.98 (3.6)
TOTAL	233221 (100.0)	1492.65 (100.0)	613.67 (100.0)	2106.32 (100.0)

Notes : 1. Figures in brackets are percentages to total.
2. Data relate to the units assisted by banks.

Source : Survey of Small Scale Industrial Units (1977) — Reserve Bank of India.

*According to definition prior to July 23, 1980.

Table - 2

Distribution of the outstanding borrowings of the small scale units according to the size of the original value of plant and machinery

Size of units in terms of investment in plant and machinery (Rs.)	Percentage distribution of units	Percentage		
		Total value of output	Total employment	Institutional loans
Less than 1 lakh	89.0	44.1	61.0	31.1
1 - 2 lakhs	5.0	17.3	11.7	17.2
2 - 5 lakhs	3.9	18.3	12.7	22.7
5 - 10 lakhs	1.8	15.1	11.8	22.5
Above 10 lakhs	0.3	5.2	2.8	6.5
	100.0	100.0	100.0	100.0

Note : Institutional loans comprise the outstanding loans of the unit at the end of the latest accounting year owed to (1) commercial banks; (2) co-operative banks and societies; (3) Government; (4) State Financial Corporations; (5) National/State Small Industries Corporations; (6) State Industrial and Investment Corporations (like the State Industrial & Investment Corporation of Maharashtra) and (7) other institutional agencies not classified under the above categories.

Source : Survey of small scale industrial units (1977) — Reserve Bank of India.

It will be observed from Table 1 that proprietary and partnership units formed 68 and 28 per cent respectively of the total number of units financed by banks and enjoyed 18 and 51 per cent of total institutional credit respectively. On the other hand, the private limited companies formed only 3 per cent of the total number of units and enjoyed 27 per cent of the institutional credit. As will be seen from Table 2, size-wise, units with investment in plant and machinery upto Rs. 2 lakhs formed 94 per cent of the units included in the sample, accounted for 61.4 per cent of the total value of output and 72.7 per cent of the total employment but had availed themselves of 48.3 per cent of institutional credit.

1.6 A table showing the trends in growth of small scale industries in the country is given below :

Sr. No.	Item	1977-78	1978-79	1979-80	1980-81	1981-82
1.	No. of units (in '000s)	663	723	798	862	961
	a. Registered	289	323	385	436	522
	b. Unregistered	374	400	413	426	439
2.	Production* (Rs. crores)	14,000	15,790	21,635	28,000	32,600
3.	Employment (in '000s)	5,890	6,380	6,975	7,100	7,500
4.	Exports (Rs. crores)	844.82	1,076.24	1,229.18	1,543.06	1,686.00 (Provisional)
5.	Credit available to SSI units** (Rs. crores)	1,705.51	2,156.31	2,632.78	—	3,703.00

Source : Small Scale Industries in India — Policies, Programmes and Institutional Support — Published by : Development Commissioner (Small Scale Industries) Ministry of Industry, Government of India, New Delhi — March 1982.

It will be observed from the above table that the growth of the small scale industries sector, during last few years has been impressive. Further, on the basis of data and norms available from the National Accounts Statistics and Central Statistical Organisation, it has been estimated that in the year 1979-80, the manufacturing sector contributed 31.1 per cent to the total gross value of output and 18.5 per cent to the total value added. Of this, the share of Village and Small Industries (VSI) sector@ in the contribution made by the manufacturing sector was around 49 per cent in terms of gross value of output and 51 per cent in terms of value added. Annual growth rate in SSI has

*At current prices figures for 1979-80 onwards take into account the production of additional units included consequent to revision of definition of small scale units.

**Figures related to the outstanding credit as on the 31st December.

@This comprises the whole of the unregistered manufacturing sector and certain portion of the registered manufacturing sector of the SSI units. A registered manufacturing sector comprises industrial establishments registered (with the Directorates of Industries) under the Factories Act, 1948, i.e. establishments employing 10 or more workers if working with power and 20 or more workers if working without power.

been 6.8 per cent during 1974-80 as compared to 5.9 per cent in total industrial production during 1974-79. As regards employment, this sector had offered employment opportunities to about 263 lakh persons (both part-time and full time) as against around 45 lakh persons estimated to be engaged on full-time basis in the large and medium industries sector. In the field of exports, this sector accounted for more than one-third of the total exports of the country.

II

Magnitude of sickness

1.7 As a result of the various policy measures introduced by the Government and with the growing magnitude of financial and other assistance being provided, the small scale industries sector as indicated in paragraph 1.6 has, no doubt, made an impressive contribution to the total value of output and employment generation. However, for a variety of reasons, rapid industrial growth has brought in its wake a high degree of incidence of sickness in the industrial sector, including the small scale units. While there is no precise way in which 'sickness' in an industrial unit can be defined, for the purpose of identification and reporting, the Reserve Bank of India has advised the commercial banks to consider a unit as sick if it has incurred cash loss for one year and, in the judgement of the bank, is likely to continue to incur such losses for the current year as well as the following year and which has imbalance in its financial structure such as current ratio of less than 1 : 1 and worsening debt equity ratio (total outside liabilities to net worth).

1.8 The data relating to sickness in small scale and other industrial units collected by RBI from commercial banks as at the end of December 1981 are given on the next page.

(Rupees in crores)

		SSI units		Other units (Medium and large)	
		No.	Amount of outstanding bank credit	No.	Amount of outstanding bank credit
1.	Total units assisted by banks	9,67,809	3,927.61	—	11,192@ (as on 30-6-82)
2.	Total sick units*	25,342	359.07	1,416	1,666.47
3.	(2) as % of (1)	2.62	9.14	—	—
4.	Sick units considered as viable	5,082 (20.05)+	168.77 (47.00)+	742 (52.4)+	1,297.05 (77.8)+
5.	Sick units considered as not viable	13,471 (53.16)+	128.80 (35.87)+	466 (32.9)+	222.83 (13.4)+
6.	Sick units in respect of which viability is not yet decided by banks	6,789 (26.79)+	61.50 (17.13)+	208 (14.7)+	146.59 (8.8)+
7.	Sick units put under nursing programme by banks	1,965 (7.75)+	128.87 (35.89)+	600 (42.4)+	1,147.43 (68.9)+
8.	Viable sick units to be put under nursing programme by banks	3,117 (12.30)+	39.90 (11.11)+	142 (10.0)+	149.62 (8.9)+

*As per RBI definition.

+ Percentage to total sick units.

@ Provisional.

It will be seen from the above table that the sick SSI units numbering 25,342 with outstanding bank credit at Rs. 359 crores formed 2.62 per cent and 9.14 per cent of the aggregate number of small scale industrial units financed by banks and the total outstanding credit to them respectively. The magnitude of sickness among industrial units assisted by SFCs is not available. However, their overdues,** including cases under litigation, which stood at Rs. 47.45 crores at the end of March 1975 increased to Rs. 311.90 crores by March 1982 which constituted 26.1 per cent of the total outstandings. In the co-operative sector, as on June 30, 1980, out of 14,823 weavers' societies, 5,095 (34 per cent) were dormant and out of 30,124 other industrial societies, 15,056 (50 per cent) were dormant. The extent of sickness among the units assisted by urban co-operative banks is not available. On the basis of the viability studies made by banks, it is observed that non-viable sick SSI units and their outstandings (item 5 of the table) accounted for 72.6 per cent and 43.3 per cent respectively of the number and outstandings of sick SSI units in respect of which viability studies were made (items 4 + 5 of the table). In the case of medium and large sick units, the corresponding percentages were 38.6 and 14.7. The percentage of sick SSI units turning out to be non-viable is considerably higher than that of the larger units.

1.9 The sickness in the small scale industries sector is also reflected in the growing number of accounts in 'default'* in respect of advances covered under the Credit Guarantee Scheme for small scale industries as shown below :

(Rs. in crores)

	Accounts in default		Total outstanding guarantees	Percentage of Column (2) to (3)
	No.	Amount outstanding		
	(1)	(2)	(3)	(4)
June 1970	463	1.42	661.77	0.21
December 1979	36438	174.43	3219.08	5.42
March 1981	39482	202.98	3716.43	5.46

**Relate to all industrial units including small scale

*Default means the failure of the borrower to discharge his obligation to repay the dues to the credit institution on being called upon to do so.

Though all accounts under default do not necessarily relate to sick units nor are the accounts of all sick units recalled, the above features can be taken to indicate the broad magnitude of sickness among the SSI units financed by all credit institutions.

1.10 Data showing the position as at the end of December 1979 relating to industry-wise incidence of defaults revealed that incidence in the textile industry group was the largest involving 5,380 accounts out of a total of 36,438 accounts i.e. 14.76 per cent followed by metal products (3,453 accounts, 9.48 per cent), food products (2,396 accounts, 6.58 per cent), electrical machinery (2,133 accounts, 5.85 per cent), chemicals (1,626 accounts, 4.46 per cent) and footwear other than wearing apparel (1,602 accounts, 4.40 per cent). Amount-wise, however, metal products with outstandings at Rs. 19.21 crores accounted for 11.01 per cent of the total amount involved in the accounts under default at Rs. 174.43 crores followed by electrical machinery (Rs. 16.41 crores, 9.41 per cent), textiles (Rs. 14.99 crores, 8.59 per cent), food products (Rs. 14.17 crores, 8.12 per cent), non-metallic minerals (Rs. 13.72 crores, 7.87 per cent) and chemicals (Rs. 11.51 crores, 6.60 per cent).

1.11 A table showing the classification of defaulting units according to the type of organisation as at the end of December 1979 is given below :

(Rs. in lakhs)

	No. of units	Amount
Proprietary	12,522 (53.16)	8547.07 (49.00)
Partnership	7,968 (33.83)	6802.86 (39.00)
Limited companies and others	3,066 (13.01)	2093.17 (12.00)
	23,556 (100.0)	17443.10 (100.0)

Note : Figures in brackets indicate percentage to total.

It will be observed from the above that the proprietary and partnership units account for 87 per cent of the defaulting units and 88 per cent of the amount of advances to such units revealing a high degree of their vulnerability and proneness to sickness.

III

Causes of Sickness

1.12 The State Bank of India (SBI) had set up a Study Team in 1975 (Chairman — Shri J. S. Varshneya) to study the problem of sickness in small scale industries. The Team's findings showed that most small scale units have certain basic shortcomings which make them prone to sickness. These are :

(a) Limited resources which do not permit any margin for error.

(b) Lack of equity.

(c) Lack of appreciation of the requirements of a properly run industry, particularly in financial management.

(d) Lack of a planned and organised approach.

Where the units have been successful, it was observed that they had shown an awareness of the need to overcome these shortcomings by proper planning, a good organisation and exercise of financial discipline. A more detailed analysis of the problem as made by the Study Team is given in Annexure IV.

1.13 In the opinion of banks, causes of sickness in large units are mainly mismanagement/management deficiencies (including diversion of funds, in-fighting, lack of marketing strategy, etc.), faulty initial planning and other technical drawbacks, labour trouble, market recession and others, such as power cut, shortage of raw materials, etc.

1.14 The causes of sickness could be classified as financial and non-financial and also as internal, such as management (which broadly covers a wide spectrum of causes like deliberate diversion/misuse of funds, financial indiscipline, liberal sale on credit, absence of cost/marketing consciousness, unwise purchasing and selling policies and practices, etc.), dissension among partners, labour trouble, etc. and external, such as power-cut, non-availability of basic raw materials, product obsolescence due to technological developments and change in consumer taste, Government policy changes, delayed payment of bills by large and medium scale units and Government Departments, etc.

1.15 An important contributory cause of sickness in small scale units is faulty project appraisals in respect of economic, financial and technical feasibility at the time of their initiation. In the case of first generation entrepreneurs, credit institutions do not lay adequate emphasis on the managerial competence required for the project. Projects are some times undertaken with the lure of concessions offered by promotional agencies without entrepreneurial skill and started with seeds of sickness which are nurtured by lack of follow-up right from the beginning by the agencies concerned. Warning signals of sickness are either not picked up by credit institutions in time or are not effectively attended to on account of the enormity of the number of units to be supervised.

1.16 In view of the widespread interest in the health of small scale industries sector, several Groups/Committees have undertaken in the past to consider different facets of the problem and come out with useful suggestions, some of which are under various stages of processing/implementation. A brief resume of the reports of some Groups/ Committees and certain schemes evolved by the Government of Gujarat is given in Annexure V.

1.17 The above reports broadly indicate the need for close rapport with the borrowers from the beginning, co-ordination between credit institutions and Government agencies, provision of assistance mainly in formulation of project reports, equity support, etc. Follow-up action, wherever necessary, has been initiated in this behalf by the concerned organisations. The Group has itself not undertaken any study of the causes of sickness but it broadly agrees with the findings of the various Groups/Committees.

IV

Steps taken by Reserve Bank of India

1.18 The problem of rehabilitation of sick industrial undertakings has been engaging the active attention of the RBI since the middle of 1970s. It has been organising seminars from time to time to consider the various problems faced by banks and term lending institutions in regard to rehabilitation of sick units. The matters discussed at the seminars covered various important aspects, such as criteria for identifying sick units, development of an early warning system, modalities of preventive action as also the problems relating to monitoring and revival of units which are already sick and are covered by nursing programmes of banks and financial institutions. These seminars have created an awareness among the bankers and other financial institutions about the need for taking expeditious coordinated action to bring the sick industrial undertakings to normalcy.

1.19 A separate cell has been created in the Reserve Bank to tackle and monitor the problems of sick units. In the matter of rehabilitation of sick small scale industrial units, suitable instructions/guidelines have been issued to commercial banks in regard to extending financial assistance, etc. to potentially viable sick units. These instructions, inter alia, cover aspects such as strengthening of the organisational set up in banks and placing of qualified staff at appropriate centres for monitoring and counselling assistance to those units. The banks have also been advised to take credit and other decisions in respect of sick units at each stage expeditiously and make efforts in deserving cases for revival of the units, particularly small ones, by considering grant of need-based credit facilities, if necessary, at concessional rates of interest subject to directives of Reserve Bank of India, relaxing margin requirements and rescheduling of past liabilities. It has been enjoined upon the banks not to charge penal rates of interest to sick units. While drawing up the nursing programmes, banks should review the penal charges levied in the account and provide necessary relief in appropriate cases. They have been advised to provide consultancy services to small scale units and entrepreneurs, wherever necessary. The banks are also required to undertake quarterly reviews of the position of their sick borrowers in the small and medium scale industries sectors and apprise their Boards by submitting every quarter comprehensive memoranda indicating region-wise and industry-wise classification of credit facilities granted to such borrowers, the organisational arrangements made for monitoring credit to them, counselling them as also measures taken for their rehabilitation etc. In order to facilitate monitoring the performance of commercial banks, they are required to submit statements to Reserve Bank giving certain information every quarter.

1.20 Further, State Level Inter-Institutional Committees (SLIICs) have been set up under the convenorship of the regional offices of the Rural Planning and Credit Department (RPCD) of RBI covering all the States and Union Territories with members representing RBI, State Governments, SFCs, IDBI and a few banks with larger involvements in the concerned areas. These committees, besides providing a useful forum for exchange of information and discussion on the problems faced by the small and medium scale industrial units are expected, inter alia, to deal with the problems relating to :

(i) co-ordination between banks and financial institutions;

(ii) provision of adequate infrastructural facilities to industrial units; and

(iii) general problems relating to such units.

1.21 Wherever banks encountered situations in which they themselves were not able to provide the required assistance to sick units, they have been advised to refer such cases to IDBI for looking into the problems of particular sick units and drawing up package of necessary measures for rehabilitation purposes. In May 1982, banks were advised that they should refer the cases of sick units which have not been granted financial assistance by term lending institutions to the Industrial Reconstruction Corporation of India Ltd. (IRCI) instead of IDBI for formulating a rehabilitation package and other assistance required by such units.

V

Special problems in nursing sick small scale units

1.22 The causes of sickness affecting industrial units, small or big, may be more or less the same but the problems of nursing sick small scale units tend to be complicated because of certain inherent weaknesses in their financial and organisational set up, which render them susceptible to the vicissitudes of trade and economic climate. In the case of technician entrepreneur schemes, almost the entire capital is made up of borrowings. This, apart from making a unit vulnerable to environmental pressures, affects the operations of the unit by increasing the interest burden and reducing its borrowing capacity. It is left with no cushion to withstand unforeseen stresses. Sickness in such units only tends to further increase the involvement of the lending institutions. Small scale units generally start with weak equity base* due to limitation on their own resources and non-corporate form of organisation. Some of them are also heavily dependent on large scale units and Government departments for marketing of their products which are not promptly paid for by them**

1.23 Organisationally, the small scale units are on a weak footing. As indicated in paragraph 1.5, a predominantly large number of them are proprietary or partnership concerns (96 per cent). These firms are less conscious of financial discipline. Non-maintenance of accounts or other details of transactions renders their financial analysis or projection of working difficult. It is borne out by the findings of the SBI Study Team (1975), that partnership firms are particularly prone to sickness

---

*Schemes at present operating to provide equity support are:

(i) Seed Capital Assistance Schemes of IDBI and SFCs; and

(ii) SBI's Equity Fund Scheme for small scale industries.

**RBI guidelines in this behalf were issued to banks in August 1978 due to dissensions among partners and heavy withdrawals by the outgoing partners. Management of the small units, particularly the proprietary ones, tends to be concentrated in one hand to the neglect of several crucial areas of operation requiring special kind of skill. Over-dependence on one or a small number of key partners/personnel proves fatal to the unit when such partners/personnel leave the unit or become sick. Due to their non-corporate form of organisation, management and ownership of units cannot be separated. While deficiencies in management can be made good to a certain extent by insisting on the units to employ qualified personnel, change of unscrupulous or inefficient management is difficult to attempt. A package of remedies, such as, extension of funds on soft terms subject to control over the management, reorganisation of the management by induction of competent managerial skill, etc. normally adopted in the case of large units becomes difficult to be worked out in the case of small units.

1.24 Thus, in such cases, credit may not be the crucial input to revive the units. The organisational and financial weakness of small scale units often make the financial institutions reluctant to undertake nursing programmes of sick units as, in their opinion, these units appear to be non-viable. An analysis of the factors assisting the implementation of successful nursing programmes and those operating against success is given in Chapter II.

VI

Financial problems of the sick units

1.25 It would appear that in the very nature of things, measures for nursing small scale industrial units will have to be broad based taking into account the various areas of sickness, such as, management, technical know-how, marketing, credit, etc. Financial assistance for nursing the units will be desirable only when such units are viable in the judgement of financial institutions.

1.26 Whatever the cause of sickness of a unit, it finally manifests itself in its distorted financial position resulting from its uneconomic functioning. Continuous cash losses deplete the working capital funds of the unit. As a result of the contraction of working capital funds or current assets, the level of operations of the unit falls, which in turn, increases its cash losses. Further, the reduction in current assets results in irregularity in the bank accounts. After a time, equity gets partly or wholly eroded. The financial stringency faced by the unit results in the eventual stoppage of production, whereas the overheads in the shape of fixed expenses such as salaries, interest, etc. keep on increasing. To add to this, there is mounting insistence on repayment of its obligations to financial institutions. The financial needs of a unit in such a situation are mainly for the following purposes :

(i) Funds for start up expenses like
   (a) payment to creditors for resumption of supply of raw material;

   (b) payment of statutory dues.

(ii) Reduction in fixed cost by reduction in interest burden.

(iii) Reschedulement of existing term loans.

(iv) Provision of additional working capital.

(v) Funds for additional machinery required, if any.

(vi) Margin for additional credit facilities.

(vii) Meeting of cash losses.

From the functional angle, financial assistance will be required mainly to :

(a) insulate the sick unit from the impact of accumulated losses on its current operations;

(b) enable the unit to meet margin money requirement for raising normal finance from credit institutions; and

(c) ensure availability of normal term and working capital finance at concessional rates of interest, at least for initial few years, so as to impart to the unit competitive strength in the market and shorten the period of nursing.

1.27 The parties generally affected due to sickness in a unit are the proprietors themselves, the banks, the term lending institutions, long-term creditors, sundry creditors for supplies, statutory or Government bodies and the employees who would have shared the loss in varying degrees. It is equitable that these parties which have derived benefit from the unit by way of interest, income or profit in the past or hope to derive it in future should also shoulder the burden of revival of the unit. Therefore, all the parties concerned will have to work out a meaningful nursing programme in regard to such units which in the judgement of credit institutions are viable with all the necessary support facilities.

CHAPTER - II

Nursing programmes of sick units :

Success and Failure

2.1 The Group was required, on the basis of case studies of typical sick units, to examine, among others, the factors which assist in the successful implementation of nursing programmes and those operating against such success. It, therefore, studied a few cases of identified sick units nursed by the financial institutions represented by the members by collecting information in a proforma (Annexure VI) evolved for the purpose.

2.2 The study has, however, certain limitations. Out of 146 cases of units nursed, information in respect of which was received by the Group, 9 fall under the category of medium scale units and in the case of 10 units, details regarding their investment in plant and machinery have not been indicated. In a majority of the case studies, the nursing programmes initiated by the institutions have not run their courses in full; the nursing programmes in respect of 30 cases have been completed and in the remaining cases, they are stated to be at various stages of implementation, viz. 'proposal stage', 'yet to commence' or 'just commenced'. In as many as 66 cases, the credit institutions have attempted to nurse the units without granting any additional finance and in the case of 93 units, where more than one institution are involved in the nursing programme, the picture is incomplete in the absence of information about involvement and assessment of other financing institutions. Further, information in respect of the following important aspects of the nursing programme called for in the proforma has not been furnished in most of the cases :

(i) The criteria adopted by the banks/financial institutions for identifying the units as sick.

(ii) The period of nursing within which a sick unit could normally be rehabilitated.

(iii) The working results of the unit quantifying profit/cash losses, debt-equity ratios, current ratios, etc. at various stages of the nursing programme.

(iv) Where more than one credit institution are involved in the nursing programme, details pertaining to the borrowings from all the institutions and their projections about the profitability of the unit and repayment of their dues/regularisation of the accounts.

(v) The quantification of cost to the credit institutions arising out of the nursing programme.

(vi) Arrangements made to overcome the non-financial factors responsible for sickness of the unit.

In view of this, these cases cannot be taken to represent all the characteristics of the problems faced by small scale industrial units. Hence, based on these data, a meaningful analysis of the factors responsible for the success or failure of the nursing programmes could not be attempted. However, it could broadly be taken as an 'opinion survey'.

2.3 Implementation of nursing programmes could be broadly identified as successful or unsuccessful only in 56 cases relating to banks (34) and SFCs (22); 33 successful and 23 unsuccessful. Certain major factors which assisted or operated against the successful implementation of nursing programmes in the opinion of the concerned institutions in these 56 cases have been tabulated on the next page.

Factors	No. of units					
	Successful			Unsuccessful		
	Corporate sector	Non-corporate sector	Total (2 + 3)	Corporate sector	Non-corporate sector	Total (5+6)
1	2	3	4	5	6	7
1. Management						
(a) Quality of management	2	10	12	3	9	12
(b) Change in management	1	—	1	—	—	—
2. Marketing						
(a) Condition	3	5	8	3	3	6
(b) Capability to market	—	—	—	—	—	—
3. Finance	5	15	20	—	3	3
4. Production						
(a) Breakdown/ improvement of machinery	1	—	1	—	1	1
(b) Raw material shortage	—	—	—	—	1	1
(c) Power position	—	1	1	—	2	2
(d) Transportation bottle-neck	—	—	—	—	1	1
(e) Rectification of mfg. defect	—	1	1	—	—	—
(f) Expansion/ diversification	—	3	3	—	—	—
(g) Lack of technical know-how	—	—	—	—	1	1
5. Other reasons	—	—	—	—	3	3
6. Factors not indicated	1	2	3	—	—	—
TOTAL :	13	37	50	6	24	30

Note : Where more than one factor account for success or failure of a unit, it has been counted more than once.

The major factors responsible for the success of nursing programmes in these cases were provision of adequate finance, better management and improvement in market conditions; other factors were diversification, expansion and better infrastructural facilities. Mismanagement, adverse market conditions, financial problems, lack of infrastructural facilities, etc. resulted in failure of nursing programmes. It may be interesting to note from the above table that a single major factor responsible for success or failure of the nursing programmes was the quality of management. Further, though financial assistance had been provided in all the cases nursed, it proved to be a major factor accounting for success only in 20 cases; in 3 cases, lack of finance is stated to have been the cause of failure, among others.

2.4 A table showing the distribution of selected units according to their form of organisation is given below :

	Units in corporate sector	Units in non-corporate sector	Total
Successful	8	25	33
Unsuccessful	5	18	23
TOTAL :	13	43	56

It will be seen from the above that the performance of units in the corporate sector was slightly better than that of units in the non-corporate sector. Out of the 13 units in the corporate sector, nursing programmes of 8 units (i.e. 62 per cent) were successful, whereas out of the 43 units in the non-corporate sector, the nursing programmes of 25 units (i.e. 58 per cent) were successful. Further, of the 56 units considered otherwise viable and nursed by credit institutions, 33 units turned the corner, while 23 could not do so. The percentage of failures even among viable units at 41 was rather high.

2.5 A table showing the industry-wise break-up of the 56 successful/unsuccessful units is given below :

Products manufactured	No. of units: Successful: Corporate sector	Successful: Non-corporate sector	Successful: Total (2 + 3)	Unsuccessful: Corporate sector	Unsuccessful: Non-corporate sector	Unsuccessful: Total (5+6)
1	2	3	4	5	6	7
1. Textiles	1	4	5	—	2	2
2. Paper and paper products	1	—	1	—	2	2
3. Wood and cork, except mfg. of furniture	—	—	—	—	1	1
4. Rubber and rubber products	2	1	3	—	4	4
5. Chemical and chemical products	—	4	4	3	2	5
6. Non-metallic mineral products	—	2	2	—	1	1
7. Metal products	—	4	4	1	3	4
8. Electrical machinery	2	4	6	—	—	—
9. Transport equipment and parts	1	1	2	—	—	—
10. Basic metal industries	—	—	—	1	—	1
11. Miscellaneous	1	5	6	—	3	3
TOTAL :	8	25	33	5	18	23

The table is based on cases which could be treated as illustrative of broad trends. In all these cases, the units were considered viable in the opinion of credit institutions and provided with necessary nursing finance. Yet, irrespective of the nature of industry and the form of organisation, while 33 units proved successful in overcoming their difficulties, 23 turned failures. Out of the 7 units in the textile group, as many as 5 (i.e. 71 per cent) were successful, presumably because they manufactured products which could be marketed direct to the final consumers and there was no dependence on bigger units or Government departments for the purpose. Similarly, there were no failures in the industry groups — manufacture of electrical machinery and manufacture of transport equipment and parts-presumably because of better market conditions prevailing in the industry. Thus, assured marketability for products is of crucial importance, in the absence of which, nursing programmes of units, otherwise viable, may result in failures.

2.6 The Group did not get sufficient number of cases of units nursed by credit institutions whose nursing programmes had run their course and could be categorised as successful or unsuccessful. Admittedly, the institutions have initiated nursing programmes in the light of their own perception of the problem. It would appear, however, that approach to the problem so far has remained ad hoc and no systematic attempt has been made to evolve criteria to establish sickness and viability and to nurse the viable ones through identifiable package programmes. It is quite possible to imagine that it is only recently that attention to sickness of industrial units and the various aspects of the problems relating thereto is being given by the credit institutions and others concerned, to evolve an acceptable and feasible approach in this behalf. In most of the cases, no feasibility reports are compiled and no projections of profitability or cash flow are made. In some cases, the object of nursing programme has been merely an attempt to regularise the accounts or help the units to execute specific orders rather than to achieve long-term viability of the units. In the case of SFCs, nursing assistance consists mainly of reschedulement of repayments of old loans without a simultaneous attempt at improving the profitability of the units. This indicates that the credit institutions have certain constraints in taking up the nursing programmes of small scale units in a meaningful way. These are :

(a) The small scale industrial units have certain special factors which make them prone to risk from the point of view of lending institutions. Two such major factors are weak management and low equity base of the units. For instance, take the case of management. A large number of units in the sector being proprietary or partnership concerns, management is highly personalised and becomes 'specific' to the units. As has been observed from the table furnished on page 18, the management of a unit is the single major factor which makes or mars the success of an otherwise viable unit even where adequate finance has been made available. Competent management capable of overcoming difficulties in areas like marketing, technical know-how, industrial relations, etc. goes a long way to ensure the success of a nursing programme. Again, integrity of the management is something on which depends the extent of reliance a credit institution will be willing to place in seeing through a nursing programme. Further, Varshneya Study Team (SBI) has revealed that partnership firms are more particularly prone to sickness, mostly due to dissentions amongst partners and reconstitution of partnerships, which usually drain out large sums of money. Management being inseparable from ownership, a package of remedies such as reorganisation of the management by induction of competent managerial skill, extension of funds on soft terms, subject to control over the management, etc. normally adopted in the case of large, and medium scale units does not become feasible in their case. Another major factor arising out of the non-corporate form of small scale units which adversely affects their health is their weak capital base. The small scale units have a high gearing ratio and their ability to sustain vicissitudes of trade and economic conditions is so limited that even the first stage of weakness creates a financial crisis for servicing borrowed funds. Further, borrowings against a slender capital base, apart from being risky from the lenders' point of view, cast an additional burden on the capacity of the units to generate surplus. Thus, where competent and honest management and adequate capital base are not assured, there develops an inherent unwillingness on the part of financial institutions to risk increasing funds for nursing these units.

(b) Causes of sickness also arise from areas like power supply, availability of scarce raw material, marketing, etc. which are external to the unit and for which it has to depend upon several Government departments and agencies created for the development of small scale industries. Nursing of sick units and maintaining them in a state of health, therefore, call for constant vigilance and great effort on the part of all concerned, including the financial institutions. This is not possible without active co-operation from all the agencies with the development of small scale industries which is not forthcoming in adequate measure.

(c) The nursing of sick small scale units involves additional labour and cost for the credit institutions at the stages of detection, establishment of viability, implementation and follow-up. The factors, usually considered essential for successful implementation of nursing programmes, to be taken care of by credit institutions are early detection of sickness, speedy implementation of remedial measures, sufficiency of funds and close monitoring. For early detection of sickness in a large number of small units and later on for monitoring the nursing programmes, credit institutions have to build up and/or improve their internal machinery for periodic inspection of units, reporting of sickness, analysing its causes, undertaking feasibility studies of the projects, etc. Further, they have to shoulder a financial risk in extending credit not only for the normal functioning of a sick unit on liberal margin requirements which are necessary in the absence of adequate equity but also to finance its past cash losses on a clean basis. Besides, they incur loss in writing off of a portion of their dues and extending concessions in the rates of interest. At every stage of evolution and implementation of nursing programmes, adequate information about the operations of the units is very essential. However, as observed earlier, units under proprietary and partnership forms of organisation (about 96 per cent of units in the small scale sector) do not generally maintain their books of accounts in a systematic manner and hence information about their profit and loss, cash flow, stock position, etc. is not readily available. All these add to the difficulty/hesitancy of institutions in evolving and monitoring nursing programmes.

2.7 In summing up, it would appear that management input is one of the crucial aspects in the successful implementation of nursing programmes in the small scale sector, in which majority of the units are proprietary or partnership concerns. Any doubt emerging from the capability or integrity of the management is apt to render the implementation of the nursing programmes on the part of the credit institutions extremely difficult. This is so because they are unable to improve the position either by infusing outside management skill or by changing the inefficient management. In the case of others, where the financial institutions are able to establish viability and are convinced that, given other facilities like market support, raw material, etc., infusion of additional funds would put the units on healthy path, they would, no doubt, be willing to evolve a meaningful nursing programme and monitor the same. It is quite possible to imagine that even if financial institutions have enough funds at their disposal and are able to assist these identified viable units, in actual practice, they may not be willing to do so because of (a) risk in financing sick industrial units, particularly the small ones, where it is difficult to ensure competent and honest management, (b) absence of co-operative effort on the part of agencies concerned with the development of small scale sector and (c) cost and labour involved in nursing and monitoring a large number of units.

CHAPTER - III

Need for Soft Loan Assistance Fund

3.1 The data — though partial — analysed in the previous chapter indicate that in bringing an identified viable sick unit to a successful operating stage, injection of additional funds tends to produce the expected results only if it is fully complemented by non-financial inputs, of which management and marketing appear crucial. The latter two factors assume added significance in nursing schemes because of the predominance of proprietary and partnership forms of organisation in small scale sector. Thus, undoubtedly, the prospects of reviving a sick unit to the satisfaction of all concerned, even if apparently considered viable on the basis of certain agreed norms and with additional funds assured, will be dim in the absence of strong support in respect of management and marketing factors. While there is no question of nursing a unit whose products have no market, one may have to get reconciled to the idea of units with weak management or management of doubtful integrity being allowed to have natural extinction. In cases where the problem area relates to management, an approach which facilitates a quick liquidation of past liabilities, a rapid transfer of ownership of the assets to a more competent entrepreneur and a resumption of production with a revamped capital base would be more productive.

3.2 The banks are at times lax to give necessary reliefs to sick units in the small scale sector because of repercussions on their working.* Among factors, other than those mentioned in the previous paragraph, affecting the willingness of banks and financial institutions, two appear crucial, viz. lack of concerted, coordinated and timely action on the part of all agencies engaged in the development of small scale sector in ensuring availability of adequate inputs and infrastructural facilities and high risk and cost involved in provision of additional finance to sick small scale units. The Group feels that pointed attention in respect of these two areas also should be given in the strategy for revival and healthy growth of small scale units. Unless this is assured, units suffering from lack of basic infrastructural facilities striking at the very roots of their viability will have to remain outside the purview of assistance for rehabilitation from credit institutions. On the assumption that these crucial support facilities are adequately taken care of and that the institutions have been able to establish viability of units, the matter which is worth considering is the factors causing unwillingness or reluctance on the part of financial institutions to inject additional funds needed for successful revival.

*Vide the High Powered Committee s report on the problems of sick units (October 1978) (Paragraph 1 of Presentation).

3.3 Looking primarily from the view point of financial institutions, the following main factors adversely affect quick rehabilitation of a sick unit :

(a) The persistent cash losses cause a drag on the unit's progress. The accounts of a sick unit carry large clean irregularities (i.e. outstandings not covered by current assets less margin). Their presence, at times, makes the nursing programmes unduly long to be viable.

(b) The arrears of interest add to the fixed costs and raise the break-even point to a level which cannot be reached within a short period of a year or two.

(c) The presence of pressing creditors causes an unregulated outflow of cash.

(d) A weak or nil equity base and the unit's inability to raise additional funds on its own do not enable it to provide requisite margin to negotiate with financial institutions for further financial assistance. Even when banks agree to provide margin free assistance, it tends to increase the interest burden on the unit.

The combined impact of these factors tends to make nursing programmes unduly long, even to the extent of making some of these units non-viable. The prolongation creates further obstacles. Credit institutions tend to become hesistant to introduce a full fledged nursing programme with induction of fresh funds and consequent higher risks involved in these long drawn programmes.

3.4 In paragraph 1.27, it was suggested that it would be equitable if the parties generally affected by the sickness in a unit, viz. management of the unit, banks, term lending institutions, long-term creditors, sundry creditors for supplies or expenses (including statutory or Government bodies) and the employees share the burden of revival of the unit. This is, however, not always possible in actual practice for various reasons. Co-operation from creditors for supplies may be difficult to secure and it may not also be economical to rely on creditors as a source of finance which is ordinarily more expensive than others. Co-operation from statutory and Government bodies, though possible, does not forthcome in full measure and uniformly in all States. The combination of circumstances may thus so connive as to make the axe of the revival burden fall on banks and term lending institutions. In the case of term lending institutions, the taking on of additional risk is generally limited. The principal amount of their loan is usually well secured by fixed assets and their risk of loss is restricted to the extent of overdue interest not covered by the value of fixed assets. It is the commercial banks which bear the brunt of the loss as reflected in the form of clean drawings in their accounts.

3.5 As detailed in paragraph 1.26, nursing finance should aim at insulating a sick unit from the impact of accumulated loss on its current operations, enable it to provide margin for additional borrowings and help it to break even early by granting concessions. In practical terms, it means that a unit's cash loss as reflected in clean irregularities in working capital accounts should be converted into term loans on soft terms and it should be provided with margin money assistance also on soft terms. Besides, additional funds for its working capital and term loans may have to be on concessional terms, if necessary. The difficulties experienced by credit institutions in this context are :

(i) greater than normal risk involved in extending nursing finance to even otherwise viable sick small scale industrial units,

(ii) loss of interest on account of concessionality in the terms of sanction, and

(iii) constraints on resources.

II

It would be desirable at this stage, in order to gain an insight into the issues involved in this regard, to refer briefly to the efforts made by various agencies in providing nursing finance or other type of assistance.

(i) Sofe Loan Scheme of Industrial Development Bank of India

3.6 Industrial Development Bank of India (IDBI) has been operating (since 1976) jointly with Industrial Credit and Investment Corporation of India (ICICI) and Industrial Finance Corporation of India (IFCI), a Soft Loan Scheme for modernisation of selected industries in the medium and large sectors to provide financial assistance on concessional terms to production units in cement, sugar, cotton, textiles, jute and certain engineering industries to enable them to overcome the backlog in modernisation, replacement and renovation of their plant and equipment so as to achieve higher and more economic levels of production and thereby improve their competitiveness in the domestic as well as international markets.

3.7 The basic criterion for obtaining assistance under the scheme is weakness or non-viability of the industrial concern arising out of mechanical obsolescence. The need for modernisation has to be established beyond doubt as also the fact that viability would be achieved within a reasonably short period. Priority is given to weak units in whose case the entire assistance is sanctioned on concessional terms. The concessional part of the assistance gets reduced in the case of not so weak and better off units, on a grading scale, depending upon the financial position of the unit. Industrial concerns to be eligible for assistance under the scheme should have been registered as public or private limited companies or co-operatives. Partnership or proprietary concerns are not eligible unless they convert themselves into private/public limited companies, before drawal of the assistance. There is no ceiling on the extent of assistance as it is need-based. The loan given under the scheme is exempted from the convertibility requirement. The period of repayment of loan is upto 15 years, including moratorium of 3 to 5 years. Interest on the soft component loan under the scheme is charged at 12.50 per cent per annum (normal lending rate on assistance by way of direct loans is 14 per cent and concessional rate to units in specified backward areas upto Rs. 2 crores to a unit in the aggregate is 12.50 per cent). In the event of default in payment of interest and/or principal, additional interest at 2 per cent per annum for the period of default is charged. Under the Scheme, loan assistance of Rs. 996.69 crores was sanctioned to 571 units as on March 31, 1983; of this, a sum of Rs. 533.28 crores was disbursed to 478 units.

(ii) Special Development Fund of IDBI

3.8 A Special Development Fund was constituted by IDBI in 1978. The purpose of the Fund is to provide long term assistance at nominal cost for rehabilitation of units which show potential of economic viability but where the normal interest burden is seemingly unbearable even after effecting financial reconstruction. The injection of funds may either be by way of unsecured loans on soft terms (with a nominal service charge of 1 to 2 per cent) or by way of subscriptions to equity, depending upon the circumstances of each case. No assistance has so far been sanctioned out of this Fund. The question of formulating guidelines in this behalf is under consideration of IDBI.

(iii) Special Capital/Seed Capital Schemes of IDBI

3.9 IDBI introduced two Seed Capital Schemes — (i) Special Capital Scheme operated by the SFCs and (ii) Seed Capital Scheme operated through the SIDCs as agents of IDBI and in exceptional cases directly by IDBI itself to assist those entrepreneurs who have worthwhile projects, technically feasible and economically viable, and who possess technical skill and managerial ability but lack finance to put in the requisite promoter's equity. These schemes have been reviewed from time to time and liberalised/modified with a view to ensuring the flow of assistance to deserving entrepreneurs.

3.9.1 Special Capital Scheme of State Financial Corporations (SFCs) for small scale industries

The SFCs Act was amended in December 1972 to enable the SFCs to raise a special class of share capital to be used in accordance with the guidelines formulated by IDBI in consultation with State Governments. The object of creation of this special capital to which contributions are made by the State Governments and the IDBI is to provide assistance on soft terms to deserving industrial units. Under the guidelines framed by IDBI in 1976 and amended from time to time, the SFCs can use such capital to provide equity type assistance on soft terms to such entrepreneurs who possess necessary skills or practical experience but lack financial resources to set up projects, primarily in the small scale, tiny and decentralised industrial sectors. The assistance provided under this scheme is in the form of equity or soft loan or combination of both for meeting the gap between the minimum promoter's contribution expected by the SFCs and the amount the entrepreneur is able to bring. The assistance is limited to 20 per cent of the cost of the project or Rs. 2 lakhs, whichever is less. A nominal interest at the rate of 1 per cent is charged on the loan. The loan is recoverable in suitable instalments fixed by the SFCs after an initial moratorium upto 5 years. Similarly, a moratorium on payment of interest upto a period of 3 years is allowed. Assistance from the Special Capital is granted not only to new units but also for restarting a closed unit or for reviving a sick unit, provided it is covered under DICGC guarantee. Upto the end of March 1983, a sum of Rs. 1034 lakhs was raised by SFCs by way of Special Capital. The number and amount of loans sanctioned were 3328 for Rs. 1023 lakhs. Out of this, a sum of Rs. 515 lakhs only was disbursed.

3.9.2 Seed Capital Scheme of IDBI

IDBI introduced the Scheme in December 1976 initially with a view to assisting new entrepreneurs who do not have adequate resources of their own for setting up industrial projects in the medium scale sector with project cost not exceeding Rs. 100 lakhs (since increased to Rs. 200 lakhs) and with a view to bringing about wider dispersal of ownership and control of industrial undertakings thus resulting in quicker industrialisation. This scheme was intially administered through the SIDCs as agents of IDBI and in exceptional cases directly by IDBI itself. It has since been liberalised/modified from time to time after a review of its progress and the types of entrepreneurs who were assisted under the scheme. These liberalisations/modifications, inter alia, include (a) broadening the definition of the entrepreneur to cover, apart from the technically qualified entrepreneurs, others not necessarily qualified but who have acquired the know-how, (b) extending the eligibility for assistance to entrepreneurs intending to graduate from small scale sector to medium scale sector for the first time or undertaking expansion/diversification/modernisation for achieving better viability and still remaining within the small scale sector or for taking over an existing sick or closed unit, provided a proper scheme has been drawn up to the satisfaction of the financial institutions to establish viability of the unit in the hands of the new management and (c) inclusion of the SFCs also in addition to SIDCs for operating the scheme with a view to facilitating units in the small scale sector under the revised definition to avail of seed capital assistance. This will make it possible for entrepreneurs in the small scale sector to raise seed capital assistance either from SIDCs or from SFCs as they choose. However, they should have the traits of a successful entrepreneur and this has to be established by a Screening Committee constituted by IDBI for the purpose. The commercial banks have not been designated as agents by IDBI for the purpose of the scheme. The Seed Capital Assistance is provided in the form of interest free soft loans to proprietary and partnership firms, subscription to 1 per cent cumulative redeemable preference shares in tha case of private limited companies with a proviso for suitably enhancing the rate of dividend depending upon the financial position and profitability of the company and subscription to the equity capital or cumulative redeemable preference shares (at 1 per cent) or both in the case of public limited companies. The repayment schedule is fixed depending upon the repaying capicity of the unit with an initial moratorium upto a maximum period of 5 years. The maximum amount of assistance normally available per project shall not exceed Rs. 15 lakhs with debt-equity pattern of 2 : 1 where soft loan is treated as equity. Since inception, Rs. 1856.55 lakhs were sanctioned by way of seed capital assistance to 326 projects and Rs. 882.17 lakhs were disbursed upto the end of June 1983.

(iv) Risk Capital Foundation's Scheme of IFCI

3.10 The Risk Capital Foundation (RCF) sponsored by the IFCI also operates a scheme with the main objective of extending supplementary financial assistance to new entrepreneurs, particularly technologists and professionals, for promoting medium sized industrial projects under the corporate form of public limited companies or promoters of the private limited company undertaking to convert their private limited companies into public limited companies as indicated by the Foundation. The assistance under this scheme is provided by way of personal interest free rupee loans to any new entrepreneur or group of new entrepreneurs for meeting a part (normally upto 50 per cent) of the promoters' contribution as stipulated by an all-India financial institution to the equity of the project eligible for their financial assistance. The maximum amount of assistance that will normally be available to a single project under the scheme would be Rs. 10 lakhs where there is only one borrower and Rs. 15 lakhs where there are two or more borrowers. The Board of Trustees of the Foundation may, in special cases, sanction loans for a higher amount. As a precondition for eligibility, the scheme, among other things, stipulates that the promoter(s) shall, as a rule, bring in at least 25 per cent of the promoter's contribution as stipulated by an all-India financial institution. Yet another pre-requisite to be eligible for assistance under the scheme is that the project should have been sanctioned financial assistance by the IFCI, IDBI or ICICI singly or jointly. The Foundation also extends assistance to the co-promoter(s) of joint sector projects, however, on a selective basis, the main consideration for relaxation being the early and continued association of the co-promoter(s) with the project. Though no interest is sought to be charged on the loans sanctioned, the Foundation will be levying a nominal service charge on the assistance provided with a view to meeting a part of its administrative expenses. Such service charges will be levied on a stepped-up basis, viz. 1 per cent per annum for the first 5 years 2 % per annum for the next 5 years and 3 per cent per annum beyond the 10th year on the amount of the loan outstanding from time to time. In addition, a contingent service charge will also be recovered to the extent of 40 per cent of the gross equity dividend which may be paid on the shares acquired out of the loan from the Foundation. The loan will be secured against the pledge of shareholdings of the assisted promoter or promoter group in the project which have been acquired out of own resources as well as loan from the Foundation. The Foundation will also insist on the mortgage redemption insurance policy for the full amount of the loan on the life of the beneficiary from the Foundation in whose favour the policy shall be absolutely assigned.

(v) Line of credit scheme of Industrial Reconstruction Corporation of India Ltd. (IRCI) for assistance to small scale units

3.11 The IRCI is operating a line of credit scheme for assistance to small scale units, the details of which are given in Annexure VII. It will be seen therefrom that the assistance is routed through a State-level Corporation which has to prepare a scheme for revival of the units in coordination with the IRCI and the commercial bank concerned. The IRCI assistance is subject to the funding of past liabilities, undertaking by an agency for meeting future cash losses of the unit and the tie-up arrangements for working capital requirements. Thus, IRCI's assistance would be confined to 'start-up' expenses, margin money and moderate amount of capital expenditure. As regards repayment of the loans, the State-level Corporation has to repay as per the agreed schedule without reference to their recoveries from the units. No spread is allowed on the rate of interest to be charged by the State-level Corporation, except service charges. Under the Scheme, IRCI assumes no risk of lending to the units, it wants the lending institutions to do so, fund past losses and identify sources for meeting future ones and there is no concessionality in its lending rates.

(vi) Government of India's margin money scheme for rehabilitation of sick units

3.12 The Government of India has evolved a new scheme for revival of sick units in the small scale sector effective from January 1982. The scheme aims at providing margin money on a long term basis only to those registered small scale units which have been set up in the preceding 7 years. The loan will carry interest at not less than 4 per cent per annum repayable in nine years, inclusive of initial moratorium period of 4 years. This margin money will enable the sick units to obtain additional institutional finance for their revival. The loans will be sanctioned by State Governments. The Central loan assistance to State Governments will be limited to 50 per cent of total margin money loan sanctioned by State Governments. The assistance would be restricted to a minimum of Rs. 1,000 and a miximum of Rs. 20,000 per unit. The loan sanctioned under the scheme shall not normally exceed 50 per cent of the additional margin money required by the unit to avail of the additional loan (both for working capital and term finance) to be sanctioned by the financial institutions as part of the rehabilitation proposal. The margin money will be dovetailed into a total package programme for assistance to the sick units.

(vii) Guarantee cover for loans to small scale industries

3.13 The Deposit Insurance and Credit Guarantee Corporation (DICGC) which is operating the Small Loans (Small Scale Industries) Guarantee Scheme with effect from April 1, 1981* extends guarantee cover to specified credit institutions, including commercial banks and State Financial Corporations in respect of their loans given to small scale industrial units@. The extent of guarantee cover (as percentage of the

*Prior to this period, the RBI was operating on behalf of Central Government, a Credit Guarantee Scheme for SSIs since 1960.

@'Small scale industrial unit' means an industrial undertaking in respect of which an affidavit has been furnished by the owners or other parties entitled to act for that undertaking or a certificate has been furnished by the eligible credit institution seeking guarantee to the effect that the investment in plant and machinery is not in excess of such amounts as may be specified by the Central Government in regard thereto and subject to such other terms and conditions as may be prescribed by the Government or the Corproation in this behalf and includes a small scale ancillary unit as defined by the Central Government (at present, the relative investment limits are Rs. 20 lakhs and Rs. 25 lakhs).

amount in default) is as under, subject to a ceiling of Rs. 10 lakhs per borrower.

	Per cent
(i) Borrowers having total credit facilities (credit limit or loan amount) not exceeding Rs. 25,000/-	90*
(ii) Technician Entrepreneurs (for advances upto Rs. 2 lakhs for a period of five years subject to certain conditions)	90*
(iii) Borrowers (including technician entrepreneurs) having total credit facilities not exceeding Rs. 2 lakhs	75
(iv) Borrowers having total credit facilities exceeding Rs. 2 lakhs :	
(a) Located in backward districts specified by Government and other areas as may be specified by DICGC	66⅔
(b) Located in other areas	50

Guarantee cover is available to all the advances of a sick unit, including clean irregularities converted into clean term loans.

(viii) State Bank of India's Equity Fund Scheme for small scale industries

3.14 The State Bank of India started in 1978 an Equity Fund Scheme for small scale industries to assist entrepreneurs setting up new SSI units in need of equity support through interest free loans, repayable on soft terms. The entrepreneurs eligible for assistance are those financed under the bank's Entrepreneur Scheme and other educated unemployed persons, including those who undergo training under its Entrepreneurial Development Programme and are eligible for credit guarantee cover. Assistance under the scheme is given by way of interest free loans to the maximum extent of 25 per cent of the total cost of the Scheme which should not be less than Rs. 25,000/-. The repayment of the loan starts only after 5 to 7 years and extends to another 5 to 7 years. The assistance ranges between Rs. 5,000 to Rs. 1 lakh (Maximum). The security available for the bank's other loans to the unit is extended to cover the soft loan. Preference is given to units in backward areas, export-oriented units, tiny sector units in rural areas and units producing import substitute items. The Fund, which is created out of profits of the bank, amounted to Rs. 6.22 crores as on 31 December, 1982 and loans for Rs. 2.1 crores were disbursed to 622 units.

*Reduced to normal rate of 75 per cent in respect of advances granted on and after 1st march 1983.

(ix) National Equity Fund

3.15 It has been observed by several committees* that small scale units generally start with a weak capital base and this has an adverse impact on the well being of units. Low capital handicaps entrepreneurs in meeting unforeseen stresses and strains and reduces their borrowing capacity; it causes considerable drain on cash accruals by way of higher interest paid on borrowings, particularly in the case of units which have not fully stabilised themselves and have low profit returns. The risk of marketability increases in such units. The entrepreneurs, however, have limited resources of their own and also do not have ready access to the capital market. These committees have, therefore, recommended the setting up of a National Equity Fund by Government of India for providing equity support to small scale industries. Assistance from the Fund is to be made available to new as well as existing units.

(x) IFCI's Scheme of subsidy for encouraging the adoption of indigenous technology

3.16.1 As there was no scheme of concessional finance to projects which play a pioneering role in the commercial exploitation of indigenous technology, IFCI introduced the scheme of subsidy for encouraging the adoption of indigenous technology in 1977. Under the Scheme, projects which are being set up with the help of loan assistance from IFCI are entitled for a concession in the form of a subsidy covering the interest payments due to IFCI during the first three years of operation of the project (extendable to a maximum period of five years in suitable cases on merits) subject to a ceiling of Rs. 5 lakhs per annum, provided the project is based on indigenous technology (including any process) or other know-how developed or invented by Government laboratories, Public Sector Companies, Universities or any other institution recognised by the Government of India, which is basic to the project and has not already been exploited on a commercial scale.

(xi) IFCI's scheme of subsidy to New Entrepreneurs for meeting cost of market studies

3.16.2 In order to encourage the commissioning of proper market studies for assessing the market for products proposed to be manufactur-

---

*(1) State Bank of India Study Team (1975).

(2) High Powered Committee for examining bank credit problems of small scale industries (Puri Committee).

(3) Committee to study functioning of public sector banks (James S. Raj Committee)

(4) High Level Committee to study the problems of sick units (1978) (Chairman—the then Union Finance Minister, Shri H. M. Patel).

ed by the new entrepreneurs, IFCI introduced in 1977 the Scheme of subsidy to New Entrepreneurs for meeting cost of market studies. Under the scheme, new entrepreneurs who may be locally based or non-resident Indians who are setting up a medium sized project with a capital cost not exceeding Rs. 3 crores for the first time in the country, can avail themselves of subsidy from IFCI upto 75 per cent of the cost of market survey/study (subject to a ceiling of Rs. 15,000/-), provided the market survey/study assignment is handled by a Technical Consultancy Organisation (TCO) and request for financial assistance for the project has been made or is proposed to be made by the entrepreneur to a State or National-level Development Finance Institution.

(xii) IFCI's Scheme of subsidy to small entrepreneurs for meeting cost of feasibility studies, etc.

3.16.3 In order to encourage small entrepreneurs to avail themselves of the facilities offered by TCOs which provide low cost but quality consultancy services, IFCI introduced in July 1978 the scheme of subsidy to small entrepreneurs. Under the Scheme, IFCI subsidises the fees for consultancy assignments relating to feasibility studies, project reports, etc. paid by a small entrepreneur to a TCO normally to the extent of 80 per cent of fees for the assignment or Rs. 5,000/-, whichever is less. Where the entrepreneur is physically handicapped or belongs to Scheduled Caste/Scheduled Tribe, the subsidy is extended to the extent of 100 per cent of the fees or Rs. 6,000/- whichever is less.

(xiii) IFCI's scheme of subsidy for promotion of ancillary and small scale industries

3.16.4 One of the main objectives of industrial policy of the Government is to encourage the setting up of industries in the small scale and ancillary sectors; the parent units could be in the small, medium or large sector. Accordingly, IFCI has been operating since September 1978 the scheme of subsidy for promotion of ancillary and small scale industries. Under the Scheme, subsidy is available to the specified agencies (which include TCOs) for preparation of feasibility reports, etc. for establishing the viability of ancillary or small scale units. Payment of subsidy under the scheme is made to the specified agencies upto 75 per cent of the fees for the assignment as soon as the same is completed and the balance 25 per cent is paid after (i) financial assistance has been sanctioned by the State level institution or a commercial bank for the proposed ancillary project and (ii) the minimum off-take/supply arrangement has been formalised between the parent unit and the proposed ancillary unit.

(xiv) Scheme of subsidy for revival of sick units in the tiny and small scale sectors

3.16.5 The objective of the IFCI's scheme of assistanec for revival of sick units in the small scale sector, which was introduced in June 1982, is to revive such of the small scale units, which are inherently viable, so that the revival process not only makes the existing investment productive but is also able to restore confidence amongst new entrepreneurs who want to take up similar projects. The scheme envisages subsidising to the extent of 80 per cent or Rs. 5000 whichever is less, of the fees charged by a TCO for carrying out a diagnostic study or for implementation of a rehabilitation programme or for nursing of a sick unit (as defined under the scheme), from its sponsors/owners or a bank/financial institution. However, where the assignment to a TCO is routed through the State Corporations for Scheduled Castes and Scheduled Tribes or backward classes, the fee for the assignment is subsidised to the extent of 100 per cent of the fees charged or Rs. 5000/- whichever is less. A sick unit is eligible for subsidy under the scheme only once during the process of its rehabilitation/revival. The extent of assistance is limited to Rs. 1 lakh per annum per TCO.

(xv) IFCI's scheme of assistance for self-development and self-employment of unemployed young persons

3.16.6 With a view to introducing unemployed persons to vocations or trades and developing in them entrepreneurial traits and settle them through the process of self-employment, IFCI introduced in June 1982 a scheme of assistance for self-development and self-employment of unemployed young persons. Under the Scheme, assistance in the form of a soft loan to an unemployed young person, within the age group of 21 to 35 years, can be available through a TCO or a Specified Agency to enable him to meet a portion of the margin money required by banks/financial institutions for financing the capital cost of his tiny/small scale sector project, provided the person has undergone a course in Entrepreneurship Development Programme (EDP) conducted by a TCO or a Specified Agency and proposes to set up his own project, which may be a shop, trade, repair service, production unit, tiny or small scale industry, etc. The soft loan is interest free for the first year and thereafter carries a concessional rate of interest as applicable to Differential Interest Rate advances of commercial banks. The soft loan can be for an amount equivalent to 25 per cent and 10 per cent (subject to a limit of Rs. 5,000/-) of the margin money required by the bank/financial institution for financing the capital cost of a tiny and small scale sector project respectively. The aforesaid limits will be increased to 30 per cent and 15 per cent subject to a limit of Rs. 6,000 if the unit is set up by an unemployed person belonging to Scheduled Caste/Scheduled Tribe or one who is physically handicapped. The loan is repayable in five to six years after a moratorium upto one year depending upon the category of the beneficiary. Under the provisions of the scheme as revised recently, it is now possible for a TCO or a Specified Agency to have the EDP upto its normal one-time intake capacity. Further, IFCI may also consider, on merits, sharing in full or in part the cost of an EDP conducted for the purpose of the Scheme by a TCO/Specified Agency. —

III

3.17 As stated in paragraph 3.5, the difficulties experienced by credit institutions in financing sick units are more than normal risk, cost and liquidity. It would be useful in this context to assess the impact which the schemes outlined in the foregoing paragraphs have made in mitigating these problems and also their potentialities to do so with suitable modifications, wherever possible. A table showing the particulars of the schemes outlined in Section II is given on the next page.

	Name of the Scheme (Administered by)	Eligible borrowers	Extent of assistance	Amount disbursed (Rs. in crores)
	(1)	(2)	(3)	(4)
1.	Soft Loan Scheme for modernisation of selected industries—1976 (IDBI, IFCI and ICICI—Resource Support is provided by IDBI).	Public Limited Companies and Co-operatives in medium and large scale sectors.	No ceiling.	As on 31-3-83 No. of units: 478 Amount: 533.28
2.	Special Development Fund—1978 (IDBI).	—	—	No assistance has so far been sanctioned out of the Fund. The modus operandi of the scheme for the rehabilitation of potentially viable units and other related issues are being worked out.
3.	Seed Capital Assistance Scheme—(IDBI).	(i) Medium scale units both in the corporate and non-corporate sectors. (ii) Small scale units undertaking expansion/diversification/modernisation. (iii) New entrepreneurs taking over an existing sick or closed unit.	Rs. 15 lakhs	As on : 30-6-1983 No. of units : — Amount : 8.82
4.	Special Capital Scheme of SFCs for small scale industries (SFCs)	Small scale units	Rs. 2 lakhs or 20 percent of the project cost whichever is less	As on : 31-3-1983 No. of units : — Amount 5.16
5.	Risk Capital Foundation Scheme—(IFCI).	New Eutrepreneurs, particularly technologists and professionals, for promoting medium sized industrial projects under the corporate form of public limited companies or promoters of the private limited company undertaking to convert their private limited companies into public limited companies	50 per cent of the promoters contribution to the equity capital of the project as stipulated by an all-India financial institution, subject to a ceiling for a single project of Rs. 10 lakhs where there is only one borrower and Rs. 15 lakhs where there are two or more borrowers. Higher amount sanctioned in special cases.	As on : 30-6-1982 No. of units: 60 promoters, 35 projects Amount : 2.51

(1)	(2)	(3)	(4)
13. Scheme of subsidy for promotion of ancillary and small scale industries —(IFCI).	Small scale ancillary industrial units. (Subsidy is paid to specified agencies including TCOs for preparation of feasibility reports, etc.)	100 percent of the fees of the assignment. (Limit of assistance Rs. 1 lakh per annum per TCO/State level developmental agency).	As on : 30-6-1982 No. of units : 58 (7 agencies) Amount : 0.05
14. Scheme of subsidy for revival of sick units in the tiny and small scale sectors—(IFCI).	Sick unit referred to a TCO for diagnostic study or implementation of a rehabilitation programme or nursing.	80 per cent of cost of assignment—maximum of Rs. 5,000. Balance to be met by the sponsors/owners or financial institutions. 100 per cent of cost of assignment—maximum of Rs. 5,000 where assignment is routed through State Corporations for scheduled castes and scheduled tribes or backward classes (Limit of assistance Rs. 1 lakh per annum per TCO).	As on : — No. of units : — Amount : —
15. Scheme of assistance for self-development and self-employment of unemployed young persons—(IFCI).	Unemployed young persons in the specified age group who do not have a permanent or a regular source of livelihood and whose parents' combined annual income does not exceed Rs 10,000/-	Soft loan equivalent to 25 per cent and 10 per cent (subject to a limit of Rs. 5,000/-) of the margin money required for financing capital cost of a tiny sector and small scale sector project respectively (30 per cent and 15 per cent in the case of persons belonging to SC/ST or physically handicapped—subject to a limit of Rs 6,000/-.).	As on : — No. of units : — Amount : —

(1)	(2)	(3)	(4)
6. Line of credit scheme for ass stance to small scale units (IRCI)	Small sca'e units	No ceiling	As on : 30-6-1982 No. of units : — Amount : 0.45
7. Margin money scheme for rehabilitation of sick units. (Government of India)	Registered small scale units which have been set up in the last 7 years.	Rs. 1 000 to Rs. 20,000	The scheme has come into force with effect from 1-1-1982
8 Small loans (Small Scale Industries) Guarantee Scheme—1981 (DICGC)	Small scale industries	Guarantee cover varying from 50 per cent to 75 per cent of the amount in default, subject to the ceiling of Rs 10 lakhs per borrower.	As on . 30-6-1982 No. of units . — Amount . 3822.13 (Amount of advances guaranteed—data provisional.)
9. Equity Fund Scheme for small scale industries—(SBI)	Entrepreneurs setting up new units who are eligible for assistance under SBI's Entrepreneur Scheme and other educated unemployed persons.	Rs. 5,000 to Rs. 1 lakh	As on : 31-12-1982 No. of units : 622 Amount : 2.1
10. Scheme of subsidy for encouraging the adoption of indigenous technology (IFCI).	Projects set up with IFCI loan assistance (subsidy to the extent of interest payment due to IFCI).	Rs. 5 lakhs per annum—Maximum for 5 years.	As on : 30-6-1982 No. fo units : 1 Amount : 0.07
11. Scheme for subsidy to new entrepreneurs for meeting cost of market studies (IFCI).	New entrepreneurs setting up a medium sized project with a capital cost not exceeding Rs. 3 crores for the first time in the country.	75 per cent of the cost of market survey/study handled by a TCO—Maximum of Rs. 15,000. (Limit of assistance—Rs 1.50 lakhs per annum per TCO)	As on : — No. of units : — Amount : —
12. Scheme of subsidy to small entrepreneurs for meeting cost of feasibility studies, etc. (IFCI).	Small entrepreneurs (for meeting cost of feasibility studies, etc.)	80 per cent of the fees paid by small entrepreneur to TCO —Maximum of Rs. 5,000/-. 100 per cent of the fees in certain cases. (Limit of assistance Rs. 2.00 lakhs per annum per TCO).	As on : 30-6-1982 No. of units : 916 Amount : 0.30

3.18 It will be seen from the Table that IDBI's Soft Loan Scheme is restricted to medium and large scale units in selected industries in the corporate sector viz. cement, sugar, cotton textiles, jute and certain engineering industries. Besides, it is not available to proprietary and partnership concerns which constitute the bulk of the units in the SSI sector and also to units rendered sick for reasons other than mechanical obsolescence. IDBI's Special Development Fund has not been utilised so far; detailed guidelines for its utilisation have also not been framed. The only scheme under which equity type assistance is available to sick small scale units is the Special Capital Scheme of SFCs. Though the Scheme was originally meant to assist entrepreneurs possessing necessary skills or practical experience but lacking in financial resources to set up projects, it was liberalised in January 1981 to include sick units. As observed earlier, the scheme has not made appreciable progress; out of a sum of Rs. 1034 lakhs raised by SFCs by way of special capital, only Rs. 515 lakhs was disbursed as on 31st March 1983. IDBI's Seed Capital Assistance Scheme, which was so far restricted to new entrepreneurs in setting up medium scale units, was liberalised in October 1981 to include small scale units undertaking expansion, diversification or modernisation and still remaining within the SSI sector and also entrepreneurs who want to take over an existing sick or closed unit. Thus, nursing programmes of existing units where no change of management or expansion, diversification or modernisation is contemplated are outside the purview of the scheme. Also, commercial banks remain outside the purview of the scheme. The risk foundation scheme of IFCI is meant for medium sized units.

3.19 The IRCI's Scheme does not undertake a risk of loss in the event of failure of the nursing programme. Its assistance is repayable by credit institutions, irrespective of whether the assisted unit succeeds or fails. The State-level Corporation to whom the line of credit is available is expected to identify an appropriate source for funding irregularities in the past liabilities as also for meeting future cash losses, if any, for which IRCI assistance is not available. It may be difficult for the State-level Corporations to identify such sources. Further, the amount of assistance for capital expenditure is limited to only financing of balancing equipment. However, IRCI which has already built up an expertise in the field of rehabilitation and reconstruction of the sick units offers its advice to the State-level Corporations in the formation of the nursing programmes. Although IRCI has been in the field for a long time, its scheme for the revival of sick small scale units is of recent origin.

3.20 Another scheme which provides equity type of assistance is the SBI's Equity Fund Scheme for small scale industries. The scheme has its own limitations in as much as entrepreneurs eligible for assistance are those financed under SBI's Entrepreneurs Scheme and other educated unemployed persons. The Scheme is essentially an adjunct to the bank's Entrepreneurial Development Programme and is not available for nursing sick units. Even this scheme has been able to assist only 622 units with Rs. 2.1 crores, though the allocations to the Fund as at the end of December 1982 stood at Rs. 6.22 crores.

3.21 As regards IFCI Schemes (Sr. Nos. 10 to 15 in the table given in paragraph 3.17), the assistance under most of the schemes (Sr. Nos. 10 to 14) is provided in indirect form by way of subsidy to cover a certain extent of interest charges due to IFCI or fees/cost of consultancy services at various phases of project charged to the units by TCOs/Specified Agencies. Under the scheme at Sr. No. 15, which is meant for weaker sections, soft loans are given to new entrepreneurs (unemployed young persons) only to the extent of 25 per cent and 10 per cent of the margin money required for financing capital cost of tiny sector and small scale sector respectively. Moreover, the schemes at Sr. Nos. 10 and 11 are for the units in medium and large scale industries sectors. The only scheme for sick units is the recently introduced scheme of subsidy for revival of sick units in the tiny and small scale sector, under which subsidy to the extent of a maximum of Rs. 5,000/- is made available to TCOs upon successful completion of assignment of diagnostic study or implementation of rehabilitation programme or for nursing of sick units with a limit of Rs. 1 lakh per annum per TCO. Having regard to the limited purpose and the extent of assistance available under this scheme, its impact would be negligible.

3.22 It would appear from the foregoing that the sick small scale units are not eligible to get equity type of assistance under any of these schemes, except the Special Capital Scheme of SFCs. Even under this Scheme, total assistance made to a unit does not exceed Rs. 2 lakhs. The risk of assisting sick units whose capital has been eroded/wiped off by accumulated losses has thus to be shouldered by credit institutions, particularly the banks. It needs to be noted in this context that the guarantee cover under DICGC's Scheme continues to be a commendable backing to the financial institutions. This cover is available to advances granted to rehabilitate viable sick units. However, this does not go far enough to meet the requirements of financial institutions in undertaking rehabilitation schemes in a big way. Government of India's margin money scheme is a step in the right direction. However, the scheme has certain limitations. On the basis of the maximum assistance available under the scheme (viz. 50 per cent of the margin money for additional borrowings, subject to a ceiling of Rs. 20,000/-) towards margin money, the additional institutional finance both for working capital and term loans that could be given for the revival of sick small scale units would not normally exceed Rs. 1,20,000/- on the basis of existing norms for margin ordinarily followed by financial institutions (unless the margin requirements are liberalised). No doubt this will be a great assistance to a large number of small units where the rehabilitation requirements are not substantial. However, there may be quite a few units where the financial assistance required may be of a higher order; in these cases, the assistance under the scheme may have to be supplemented by additional funds. Moreover, in many cases, it may be very difficult for the units to bring in funds to the extent of 50 per cent of total margin money required to support additional borrowings. Apart from provision of margin assistance for additional finance, another crucial component of rehabilitation assistance is the financing of cash losses. There is no provision in this behalf under the Government's Scheme.

3.23 It would be amply clear from the foregoing that very little assistance is available to the sick small scale industries under the existing schemes. The existing schemes for equity support mainly aim at promotion of entrepreneurship where the entrepreneurs have worthwhile viable programmes, which they are capable of implementing successfully but do not possess means to contribute their share of equity needed (on certain norms) for raising institutional finance. Even these schemes have not made worthwhile progress either because the institutions administering them do not find the right type of entrepreneurs or because they are overcautious in extending assistance. The possibilities of suitable modifications in the existing schemes to make sick units eligible for assistance under them are no doubt, worth exploring. However, it is a moot point whether the same will be of great help in meeting the requirements of credit institutions, particularly, in relieving them of risk inherent in assisting sick units. One such possibility is of considering modification to the Special Capital Scheme of SFCs and Seed Capital Scheme of IDBI under which funds are made available to SFCs/SIDCs by IDBI and State Governments. As in the case of SFCs, commercial banks also grant term loans to small scale industrial units for acquisition of fixed assets. IDBI, being the apex body for term lending institutions, may consider designating banks as agents for the purpose of the Seed Capital Scheme. The Group has not gone into these details but IDBI may examine the various issues involved taking into account the proposal for setting up of the National Equity Fund which may go a long way in filling the gap in regard to the availability of 'risk' finance. This will also help in prevention and proliferation of sickness in the small scale sector.

3.24 As regards cost involved for the credit institutions in nursing sick units by scaling down past dues, extending concessions in interest rates, maintaining machinery to detect sick units and monitor their nursing programmes, etc. there is no mechanism whereby their burden could be sufficiently lessened. The banks may not ordinarily have a problem of restraint on their resources in extending credit but may have hesitancy in undertaking additional risk in nursing sick units. The SFCs often face a problem of liquidity in as much as the refinance obtained from IDBI has to be repaid, irrespective of defaults by borrowers in their dues to SFCs.

3.25 Summing up, there emerges a need to devise a scheme to assist the credit institutions to enable them to undertake nursing programmes for sick units. The schemes in operation at present for providing risk capital possibly may not be adequate in assisting sick units as they have been primarily designed to develop entrepreneurship and even in the relatively safe spheres of their activities, their performance has not been satisfactory. The provisions of the existing schemes do not adequately deal with the problems of sick units. The quantum of assistance made available to the sick small scale industrial units through the various schemes is very negligible. There is, therefore, a need to explore the possibilities of filling in this 'gap'. A fund with sufficient resources at its disposal and with capacity to absorb possible losses may be able to help credit institutions in a meaningful manner.

CHAPTER - IV

Assistance from the SLAF — Nature form and terms and conditions

I

4.1 The credit institutions in adopting nursing programmes to bring sick small scale units to a healthy position have tended to be cautious for a variety of reasons (vide Chapter II). Often, they have been reluctant to undertake nursing responsibilities all by themselves. Despite potential viability of the units, institutions have not been able to nurse the sick units in adequate measure and in right time. Some of the key factors which seem to have contributed to it are weak management, poor capital base, difficulty in marketing of products, want of co-ordinated action on the part of all agencies concerned with the development of small scale industries sector and cost involved in extending financial concessions required to be given to the units and in maintaining administrative machinery for detection of sickness and monitoring of nursing programmes.

4.2 In pure financial terms, the problems of credit institutions in extending liberal assistance to viable sick units imply greater than normal risk, cost and also constraints on resources. A review of the activities of the existing agencies for provision of nursing or equity type of assistance vis-a-vis the financial needs of sick units made in Chapter III reveals that these facilities are basically meant for development of entrepreneurship. While most of them are not available for sick small scale industrial units, those available are neither adequate in themselves nor do they fully mitigate the difficulties of credit institutions in meeting the credit requirements of the growing number of sick units. A gap both in respect of volume and nature of assistance needed by the credit institutions in encouraging them to nurse sick small scale units fully and in a meaningful way has been identified and it is felt that the difficulties could be overcome by setting up a special Fund — Soft Loan Assistance Fund (SLAF) for the purpose.

4.3 The Group is required (i) to suggest the criteria on which assistance from the Fund may be provided and the terms and conditions thereof and (ii) to examine whether the Fund should provide (a) loan assistance to units on soft terms, (b) refinance to banks, SFCs, etc. on soft terms for this purpose or (c) both these.

4.4 Before attempting to consider these aspects, the Group thought that it would be useful to have a close look at the nature of financial needs of sick industrial units. The various types of financial needs of sick industrial units have been mentioned in paragraph 1.26. The major distortions in the financial structure of units brought about by their accumulated cash losses are (a) erosion of equity, (b) loss of security in the working capital advances already availed of from banks, (c) mounting arrears of payment to sundry creditors for supplies of raw material or other expenses, to Government in respect of statutory dues, to financial institutions on account of interest, to employees for outstanding wages, etc. and (d) rising overheads resulting in uneconomic working of the unit. In effect, it means that a portion of their advances from banks has been rendered unproductive and they need further finance from banks to continue their normal manufacturing activities, which they find it diffiuclt to raise, firstly, because they have no capacity to provide margin for such enhanced borrowings and secondly, because the required funds are much larger than their normal requirements which the banks are hesitant to extend. The nursing programmes of such units have to provide for conversion of clean irregularities* in the working capital accounts into a clean term loan repayable over a number of years and extension of additional credit facilities for meeting the normal working capital requirements as also for acquisition of additional fixed assets which may be required under the nursing programme. The units, on their part, have to raise equity for providing margins and improving their credit worthiness. Further, interest on borrowings much higher than their normal credit requirements entails a heavy burden on their profit margin. The rate of interest on these borrowings has, therefore, to be sufficiently low not only to impart the units with sufficient competitive strength but also to enable them to repay the nursing assistance within a reasonable period. Thus, from the functional angle, the nursing assistance has to provide, apart from normal term and working capital assistance, for :

(i) equity type of assistance at nominal service charges/interest,

(ii) conversion of clean irregularities in working capital accounts into clean term loans repayable over the period of the nursing programme at concessional rates of interest,

---

*Outstandings in the secured working capital accounts in excess of the drawing power (i.e. value of security less margin). This may be due to application of interest, loss of security or its value or removal from cover of security rendered unrealisable or not easily realisable.

(iii) grant of similar term loans at concessional rates of interest for paying outstanding wages and pressing creditors to enable them to resume supplies,

(iv) rescheduling or postponing recovery of overdue instalments and interest in term loans and rescheduling of statutory overdues,

(v) concessions in rates of interest even for the other normal credit facilities extended to the unit and

(vi) cash losses in the initial years of the nursing programme.

The Group's recommendations regarding the nature and form of assistance have, therefore, been made keeping in view these needs of sick industrial units and also the difficulties viz., risk, cost and constraints on resources faced by credit institutions in providing them.

4.5 While considering the nature and form of assistance that could be granted from the SLAF, the Group feels that the following broad guidelines should be observed :

(i) Assistance from the Fund should not take the form of outright grant or subsidy.

(ii) The element of concessionality in the assistance from the Fund should not be continued beyond the stage at which the unit gains strength to absorb normal cost and is in a position to start servicing and repaying nursing assistance.

(iii) Support should be such as to enable the credit institutions to bear the inherent risk involved in the nursing programme.

(iv) Sharing of risk should be equitable between the banks, term lending institutions, Government agencies as also the borrower.

III

4.6 The terms of reference require the Group to examine whether the Fund should provide assistance to units on soft terms or refinance to credit institutions on soft terms or both, for the purpose of assisting successful implementation of nursing programmes of sick units. The twin objectives of providing assistance from SLAF should be (i) to ensure that the sick units are enabled to borrow further for their continuous future operations from banks and SFCs by reducing the element of risk for them in lending to such units and (ii) to reduce the interest burden of past borrowings which have become unproductive having been absorbed by cash losses. In order to improve the credit worthiness of the units, it is necessary to recoup the loss of equity, at least partially, by infusion of equity type of assistance at low cost. The risk in this type of lending has necessarily to be borne by a source other than the credit institutions themselves. Reduction in the burden of interest on borrowings absorbed by cash losses could be brought about by providing the lending institutions with refinance at concessional rate of interest in respect of such part of their lendings to sick units. The lending institutions should, however, pass on the entire concession to units. The Group, therefore, feels that the Fund should provide both direct loans to units and also refinance to credit institutions. The type of assistance which should be made available from SLAF to units and credit institutions and by credit institutions to units under nursing programmes and the terms and conditions thereof are indicated in the following paragraphs.

4.7 It would be desirable if the financial assistance on soft terms recommended by the Group is extended to units which avail of nursing finance from the credit institutions which have joined the Small Loans (Small Scale Industries) Guarantee Scheme, 1981 of the DICGC.

Equity type of support to units from SLAF

4.8 Equity support to be provided to units is required to cover the accumulated cash losses in the past as well as the anticipated cash losses in the initial years of the nursing programme. However, from the point of view of nursing, it is the meeting of immediate additional requirement of funds which is of crucial importance. The Group, therefore, recommends that equity assistance should be limited to the extent required for the functioning of the unit at the optimum level on a sustained basis which will be above the break even point in the normal circumstances, i.e. in the absence of accumulated cash losses. There are some legal hurdles, the Group was informed, in respect of dues relating to Provident Fund, which cannot be rescheduled. Estimates of working capital requirements of a unit also do not take into account its dues in this regard. It would, therefore, be appropriate if a sick unit's overdues on this account are met out of equity assistance. The Group, however, feels that adequate stake of the borrower is of utmost importance for the success of a nursing programme. The credit institutions should, therefore, ensure that the borrowers themselves bring in additional funds to the maximum possible extent needed by the units to support their additional borrowings. In any case, the amount of additional funds to be brought in by the borrowers/promoters should not be less than 10 per cent in the case of technician entrepreneurs* and 20 per cent in other cases, of the amount of equity type of assistance which the Group recommends for sanction from the SLAF to sick units.

4.9 The equity type loan should be sanctioned on the following terms :

1. The quantum of the loan should be worked out as indicated below :

(i) Margin money for additional working capital requirements sanctioned under the nursing programme	—
(ii) Margin money for additional term loans sanctioned under the nursing programme	—
(iii) Provident Fund dues	—
(iv) Cash loss, if any, for the first year of the nursing programme as projected	—
LESS : Additional funds brought in subject to the minimum as indicated above	—

2. The loan should be utilised for the purpose for which it has been sanctioned.

3. The rate of interest/service charges to be charged to the borrower for the above assistance should be nominal, say, 1 per cent per annum which could be varied at the discretion of the SLAF. Under IDBI's Seed Capital Scheme, assistance is provided in the form of subscription to share capital or a soft loan. The soft loan is granted free of interest carrying a service charge of 1 per cent per annum payable

*The entrepreneur or each one of the group of entrepreneurs (e.g. in a partnership) possessing technical qualifications or adequate practical experience (technical) in the proposed line of activity half yearly on the loan amount outstanding with option to IDBI to step up the rate depending upon the profitability of the beneficiary during the currency of the loan period. Assistance under Special Capital Scheme (gap in promoter's equity) of SFCs for small scale industries is given at 1 per cent per annum, while assistance under Equity Fund Scheme of the State Bank of India is interest free.

4. The loan should be repaid in a period not exceeding nine years with an initial moratorium* for payment of principal as well as interest not exceeding five years. This period may be reduced depending upon the profitability of the unit.

5. The loan should have a second charge@ on all the fixed and floating assets of the unit. The bodies/organisations which have a first charge on these assets should concede a second charge in favour of the organisation granting the equity loan.

4.10 The equity assistance to units should be provided by way of loans to units channelised through the credit institutions. The loans will be sanctioned by the credit institution which has the maximum involvement in providing rehabilitation finance to the unit. This institution may be designated as the 'lead institution' for the purpose and act as an agent of the organisation operating the SLAF. The loan will be refinanced out of the SLAF at the same rate of interest which the credit institution has to recover from the unit with a stipulation that the investment risk shall be borne by the SLAF. The rate of interest charged to the unit and consequently the rate of refinance as also the period of moratorium for payment of interest and repayment of principal could be varied at the discretion of the SLAF.

***Repayment schedule under:**

(i) **IDBI's Seed Capital Scheme**

The repayment schedule shall be fixed depending upon the repayment capacity of the unit with an initial moratorium upto a maximum period of 5 years.

(ii) **Government of India's Margin Money Scheme for revival of sick small scale units**

The period of moratorium, if any, and repayment schedule shall be decided in each case by the State Level Co-ordination Committee (SLCC), subject to the condition that the moratorium shall not in any case exceed 4 years and the total period for repayment, inclusive of moratorium period shall not exceed 9 years.

@ **Nature of charge under IDBI's Seed Capital Scheme**

First pari passu or second charge on the assets of the concern along with the charge SIDC/SFC would be taking for its loan assistance or any other security acceptable to the SIDC/SFC/IDBI.

4.11 Apart from Provident Fund dues for which relief will be provided through equity assistance, there are other dues to State Governments and statutory bodies such as sales tax, water charges, electricity charges, etc. It is necessary that nursing programmes of units provide for deferment of payment of these dues. In certain States, there are schemes for conversion of such dues into term loans. The Group recommends that at the time of formulation of nursing programmes to be considered by the SLAF, there should be a firm commitment on the part of the concerned Government and statutory bodies to reschedule the dues with no penalties and concessional rates of interest consistent with the spirit in which the 'package' for rehabilitation is drawn by the financial institutions.

Clean Term Loans

4.12 The burden of cash loss falls, apart from the owners of the unit, on the bank in the form of clean irregularities, the financial institutions in the form of arrears of dues and also on Government, creditors for supplies and expenses and employees whose dues remain outstanding. In this connection, the Group discussed the question as to who should finance the accumulated cash losses. A view expressed by certain members was that the burden of revival of a sick unit should be shared by the owners, credit institutions, creditors, employees, etc. as mentioned in the concluding portion of Chapter I. The feasibility of this suggestion has been examined in paragraph 3.4 and it is felt that this approach may not be practicable. In actual practice, the burden of financing the cash losses falls mainly or wholly on credit institutions. At the meeting of the Standing Co-ordination Committee to secure ongoing co-ordination between banks and term lending institutions held on September 15, 1980, it was agreed that the losses incurred by a unit before the question of its rehabilitation was initiated as also those incurred by the unit for a period upto 6 months from the date a reference was made to IDBI for preparation of rehabilitation programme (or such other further period which might be needed by the banks to give their consent to the rehabilitation programme, with the approval of the Reserve Bank of India, if necessary) should be financed by the commercial banks and that such losses subsequent to this period should form part of the package of rehabilitation assistance. The decision of the Committee relates to cases of medium and large scale units and one would logically suggest a similar procedure in the case of small scale units as well. However, the Group, after consideration of the various aspects, feels that this procedure may not be fair in the case of small scale units as nursing of these units is riskier than that of large scale units. It would be seen from the data furnished in paragraph 1.8 that while out of the 18,553 sick small scale units whose viability studies were made by banks, 72.6 per cent accounting for 43.3 per cent of their outstanding dues were found non-viable; the corresponding figures for medium and large scale units were 38.6 per cent and 14.7 per cent, respectively (vide paragraph 1.8). Besides, it was also observed on the basis of the data collected by the Group (vide paragraph 2.4), that the percentage of failures even among the viable units financed by credit institutions was as high as 41. An analysis of the factors assisting/impeding successful implementation of nursing programmes made in Chapter II reveals that in the case of small scale units, finance is not the crucial determinant of the success of a nursing programme and the inherent weaknesses of the small scale units inhibit the credit institutions in extending full financial assistance to the nursing programmes of even otherwise viable units. However, with the extension of equity support as suggested in paragraph 4.8 and the availability of credit guarantee cover from the DICGC the banks should have no hesitation in providing financial support for the cash losses of the units to the extent they devolve on them. This is generally done by banks by converting clean irregularities in their accounts into term loans repayable over a period of years depending upon the profitability of the units. The Group suggests that the banks should also advance amounts needed by the units to pay the pressing liabilities and include them in clean term loans.

4.13 The clean term loans should be granted on the following terms and conditions :

1. The outstandings in all the working capital accounts of sick units in excess of the drawing power based on the primary security in the accounts, should be segregated and converted into term loans repayable in easy instalments over a period depending upon the profitability of the unit. The credit facilities granted on a clean basis should continue on similar basis and not be merged into clean term loan accounts. While working out the clean irregularities in the working capital accounts, penal interest, if any, debited to the accounts, should be waived. According to the information available it is revealed that some banks are already following this practice. The Group feels that the practice should be followed by all credit institutions. The quantum of clean term loan should be worked out as shown below :

Clean irregularities worked out as above	—
Pressing liabilities	—
	—

2. Current assets removed from cover for the banks' advances for reasons of their being not easily realisable should be segregated before the commencement of the nursing programme. Efforts should be made to realise them as early as possible and the proceeds utilised to adjust the clean irregularity. This will help the credit institutions in reducing the clean term loan and the attendant risk.

3. The clean term loan should have a priority for repayment of instalments of principal over the secured term loans. Interest on all term loans should, however, be paid before payment of instalment of any term loan.

4. The interest burden of this loan for sick units is over and above that of normal borrowings and proves a drag on the profitability of the unit by reducing its margins to uneconomic levels and impedes the nursing programmes. It is, therefore, necessary that this burden is reduced by grant of concession in the rate of interest. This will not only help viable sick units to break even early and shorten the period of nursing programme but also bring the marginally viable units classified as non-viable within the viability criteria. It is the practice of certain banks to charge interest for such loans at a rate of about 13.5 per cent per annum being the rate prescribed by Reserve Bank in respect of term loans for more than three years. It was agreed in the meeting of the Standing Co-ordination Committee held on September 15, 1980 referred to earlier that viability of a unit should be assessed on a realistic basis i.e. a unit should be considered viable if it was in a position to service its debts at a reasonable rate of interest which could be concessional but not below the minimum lending rate and in no case below the cost of funds to the banks, within a reasonable period, say, about 8 to 10 years. The decision, however, relates to medium and large scale industries. On the basis of this decision, the rate of interest chargeable on the loan should be linked to the cost of raising funds to the credit institutions which would vary from institution to institution. Besides, adoption of this procedure would take away the profit margin of the credit institutions affecting their willingness to extend finance liberally. The Group, therefore, suggests that credit institutions should have access to a cheap source of long-term refinance. The rates of interest charged at present to credit institutions by IDBI under its Refinance

Scheme to industrial units in the backward areas are as under :

	Interest rate (Per cent per annum)	
	Banks	Ceiling on primary lenders' rate
Composite loans upto Rs. 25,000 per unit	6	10.25
Small Scale Units	8.50	12.50

On this analogy, the Group recommends that the Fund should provide refinance to credit institutions in respect of 'clean term loans' granted by them to sick small scale industrial units at 6 per cent per annum in the case of units with composite loans upto Rs. 25,000 per unit, 7 per cent per annum in the case of units with borrowings upto Rs. 2 lakhs and 8.50 per cent per annum in the case of units with borrowings over Rs. 2 lakhs. The credit institutions may be allowed to have a spread of 1 per cent in the case of borrowings upto Rs. 2 lakhs and 2 per cent in other cases, the incidence of tax being borne by credit institutions.

5. In order to provide flexibility to the credit institutions in regard to rescheduling in genuine cases, the repayment of refinance by credit institutions should be linked to repayment of the loans by the units but the period for repayment of the refinance should not exceed nine years in any case. The refinance should, however, be repaid earlier if the nursing programme does not succeed and is given up. In case the loan is recalled by the credit institutions for any reason, the refinance should be repaid immediately.

4.14 According to Reserve Bank's directives, at present the banks are required to obtain its prior approval for charging rates of interest lower than 13-1/2 per cent per annum (inclusive of tax) on advances sanctioned to sick units under nursing programme. The Group suggests that in the case of units to be assisted from the SLAF, the Reserve Bank may consider waiving the requirement of its prior approval for charging rates of interest on clean term loans as recommended in paragraph 4.13.

4.15 As already mentioned in paragraph 4.5 (ii), the extent and period of concessionality in nursing finance need not be uniform throughout the period of the nursing programme in all cases. The performance of units should be reviewed annually to see whether it is in a position to generate surplus to service the debt burden at normal rates. If such a review reveals that the unit has turned the corner before the expected period, the repayment schedule should be advanced and/or concessions reduced. At the end of three years, a positive view should be taken about its health and capacity to generate surplus. If at that stage, it is revealed that the nursing programme has not been successful, the facilities to the unit should be recalled.

Reschedulement of existing term loans

4.16 The sick units would normally find it difficult to service the term loans sanctioned to them by banks/term lending institutions for acquisition of fixed assets and would have defaulted in repayment of principal and payment of interest. The credit institutions should reschedule the repayment of term loans and accrued interest consistent with the projected profitability of the units. Penal interest charged, if any, should be waived.

Grant of need-based normal credit

4.17 The banks/term lending institutions should reassess the working capital and term loan requirements of the units and extend need-based credit facilities as contemplated under the nursing programme to ensure unhindered operations of the units. It should be ensured that while sanctioning limits, the requirements of the unit for its operations at the projected optimum level under the nursing programme are sanctioned and further revised consistent with capacity utilisation. The funds may, however, be released gradually depending upon the requirements.

IDBI Refinance

4.18 In the case of normal term loans, refinance is available from IDBI and the credit institutions, particularly the State Financial Corporations, get recouped for their funds after obtaining refinance in respect of their loans. Their resource position is subsequently affected to the extent of their overdues from defaulting units, as refinance* from IDBI is repayable, irrespective of repayment of dues by units. The

*Repayment of refinance obtained from IDBI normally synchronises with the schedule of repayment of the corresponding loan and all payments received from the borrowing concern are to be passed on to IDBI. The financial institutions/banks are required to remit the instalments of refinance to IDBI on due dates, irrespective of whether the relative instalments of loan have been received by it from the borrower or not.

Group feels that IDBI should consider linking repayment of refinance by credit institutions to repayment of loans in the case of sick units assisted from SLAF and restore the quantum of refinance repaid to IDBI in respect of such units. This will provide an incentive to credit institutions in rescheduling their dues from units without losing the refinance facility.

4.19 At present, term loans under nursing programmes are refinanced by IDBI on normal terms i.e. subject to the units satisfying the norms prescribed by it in regard to promoters' contribution, debt-equity ratio, debt-service coverage ratio, etc. In the case of sick units, it is difficult for them to satisfy these norms on account of erosion of their equity due to accumulated cash losses suffered by them. The Group, therefore, recommends that IDBI should relax these norms where package of nursing programme has been worked out with assistance from the SLAF. This will help the credit institutions in overcoming their hesitancy in granting additional term loans to sick units in the absence of refinance facility from IDBI.

4.20 IDBI has not so far extended refinance facility to co-operative banks other than the scheduled state co-operative banks. However, the question of extending refinance facilities to central and urban co-operative banks, on a selective basis, is under consideration of IDB' Extension of refinance facility from IDBI to these banks is necessary for assisting sick small scale units financed by them. The Group was informed that the IDBI Board has already agreed in principle to provide this facility and that the proposal is pending with Government of India.

4.21 The Group feels that the above recommended measures should go a long way in achieving the objective of rehabilitating the viable sick units within a reasonable time schedule. So far as the units are concerned, their equity base will be partially restored, their capacity to borrow will improve and the interest burden will be substantially reduced. Equity assistance to units and their improved borrowing capacity and refinance from SLAF should provide necessary support to credit institutions in overcoming their present hesitancy in rehabilitating the viable sick small scale units systematically.

CHAPTER - V

Choice of units for assistance from the Fund

I

Identification of sick units

5.1 As assistance from the Fund will be risk bearing and concessional, care has to be taken to ensure that it goes to genuine sick units which have a fair chance of success. The first problem relating to choice of units for assistance is definition of a sick unit. The Group considered the various definitions of sick units in vogue*. In all these definitions, the main characteristic of a sick unit has been mentioned as its incurring 'cash losses' or its failure to generate surplus. Also, such losses should have been incurred on a continuous basis. Mere classification of a unit as sick on this basis may not, however, justify assistance from SLAF. In the case of small scale units, which have inherent weaknesses, most of them are likely to incur cash losses for short periods of one or two years. Besides, if a unit has a strong capital base, relatively small losses may not materially affect its operations so long as it continues to have a strong equity base. If, however, accumulated losses cause heavy (say, 50%) erosion in capital giving rise to liquidity problems adversely affecting the viability of the project of the unit basically for want of finance, assistance from SLAF may be justifiable. Again, in the case of units financed under Technician Entrepreneurs Schemes of various credit institutions, the unit may have nil or negligible equity base. The cash losses in their case will reflect as clean irregularities in the accounts in respect of working capital advances extended by banks or unpaid creditors for supplies or expenses. In order to identify sick units in this category, it will

---

*1. **Reserve Bank of India**-A unit is considered sick if it has incurred cash loss for one vear and in the judgement of the bank is likely to continue to incur such losses for the current year as well as the following year and which has imbalance in its financial structure such as current ratio of less than 1:1 and worsening debt equity ratio (total outside liabilities to the net worth).

2. **State Bank of India Study Team 1975** (vide paragraph 1.12)—A sick unit is one which fails to generate internal surplus on a continuing basis and depends for its survival on frequent infusion of external funds.

3. **Industrial Development Bank of India**—A sick unit is one which shows the following features:

i) Continuous cash losses for a period of 2 years or continued erosion in the net worth say, by 50 per cent.

ii) Continuous defaults in meeting four consecutive half yearly instalments of interest or principal on institutional loans.

iii) Shortfall in the margin for bank advances and persistent irregularities n the operations of the unit's credit limits with banks,

iv) Mounting arrears on account of statutory or other liabilities, say for a period of one or two years.

be necessary to formulate a different yardstick. In the case of term lending institutions, it is usual to classify a unit as sick on the basis of defaults in repaying the instalments of term loans. An indepth examination of the case may point to the existence of a wilful default or default on account of certain temporary difficulties or reveal only incipient sickness which could be remedied by the credit institutions themselves without assistance from SLAF. Similarly, closure of a unit over a period of time may be due to factors such as labour trouble, disputes among partners in a partnership firm, etc. which have no bearing on the basic viability of the project of the unit. It is thus difficult to lay down a rule of thumb for identification of sick units needing liberal financial assistance from SLAF. Definition of a sick unit for the purpose has to take into account the simultaneous existence of several factors. For the purpose of SLAF, a sick unit may be defined as one which has incurred cash loss for at least the previous accounting year and in the judgement of the bank(s) and/or financial institution(s), is likely to continue to incur cash loss in the current accounting year and has an erosion on account of cash losses to the extent of 50 per cent or more of net worth from the year in which the unit started incurring cash losses. (For the purpose of collecting statistical data, the definition given by the Reserve Bank of India may be adopted)

Computation of cash loss

5.2 Cash loss for the purpose of the criteria mentioned in paragraph 5.1 should be the loss arrived at after making provision for all expenses, including interest but without providing for depreciation and transfers to reserves like Development Rebate Reserve, Investment Allowance Reserve, etc. While this could be taken as a general basis for computing cash loss, a detailed scrutiny of the various items of expenses debited to Profit and Loss Account, such as salaries to proprietors/partners, commission on profit/sales to parties connected with the borrowers or associate concerns, etc. would be necessary to ensure that the loss is not artificially inflated and that it reflects the true picture of the working of the unit with reasonable expenses charged against its income. Such an exercise would be absolutely necessary when decision to rehabilitate the chosen viable unit is taken in order to ensure that the assistance goes to genuine units. Broad illustrative guidelines in this regard are given in Annexure VIII.

5.3 In the criteria for identification of a sick unit outlined in paragraph 5.1, the condition relating to existence of cash loss, is of fundamental importance. However, its application in the case of proprietary and partnership firms might raise operational problems. These units forming the bulk of units coming under the small scale industries category do not generally maintain proper books of account. However, at least in the case of units proposed to be assisted from SLAF, the credit institutions should arrange to obtain such basic data as are necessary for computing the cash losses to satisfy themselves about the existence of the features mentioned in paragraph 5.2 for classifying a unit as sick. A proforma for the information to be obtained from the unit is given in Annexure IX.

II

Viability of the sick units

5.4 Assistance under the Fund should not be utilised merely to prolong the life of units chronically sick and incurable. Units with basically sound and feasible projects, having the requisite technical and managerial competence and which can start generating surplus to take care of commitments within a reasonable period, say, two or three years only should be considered for assistance.

5.5 For determining the viability of sick units, the first step should be to identify the causes of sickness. These could be classified as financial and non-financial and also as internal, such as management (which broadly covers a wide spectrum of causes like financial indiscipline, liberal credit sales, absence of cost/marketing consciousness, unwise purchasing and selling policies, etc.), dissention among partners, labour trouble, etc. and external such as power cut, non-availability of basic raw materials, product obsolescence due to technological developments and change in consumers' taste, Government policy changes, etc. It may not be possible to revive sick units where the remedy for sickness lies beyond the scope of the credit institutions and the concerned Government agencies to rectify in the existing environmental set up and hence beyond cure. There is no point in sinking further funds in such units which should be allowed to be wound up.

5.6 Where non-financial, external environmental factors account for sickness, all the units in the same industry in the region will be uniformly affected and remedies for their revival will have to be found by other agencies and these should normally be sufficient to restore the units to a state of health with the normal nursing assistance extended by financial institutions.

5.7 Sickness in units is, however, normally caused by a combination of factors and it is not possible to categorise the units as sick on the basis of a single cause of sickness. The Group, therefore, finds it difficult to suggest cut and dry criteria for selection of units for assistance from the Fund merely on the basis of reported causes of sickness. The Group is of the view that it is not desirable to have any rigidity of approach in this regard. It should be left to the judgement of credit institutions to ensure that necessary safeguards are taken by them to weed out cases of the type referred to in the foregoing paragraphs to ensure that assistance reaches only the genuine and deserving sick units.

5.8 A high degree of stake of the borrower is necessary to impart a sense of urgency to the borrower and achieve the best possible results within the shortest possible time. Apart from stipulation regarding bringing in funds of his own or from his friends and relatives, it should be ensured that the borrower's career is closely linked to the success of the project.

5.9 The Group felt that there should be some time bound programme for examining the viability of a unit soon after it is identified as sick. In this context, it felt that within six months after the units are identified as sick, financial institutions should initiate necessary measures for determining their viability, formulate the nursing programmes if considered viable and approach the SLAF authorities with concrete proposals for assistance. For this purpose, assistance from the Technical Consultancy Organisations (TCOs) set up by IDBI may be taken, if required. Proposals received after twelve months from the date of identification of the units as sick should not be considered for assistance from the SLAF.

III

Criteria for selection of units for assistance

5.10 The following broad criteria for determining the eligibility of sick units for assistance from SLAF should be followed :

(a) The unit should be sick as defined in paragraph 5.1.

(b) The unit's dealings with the bank in the past should have been satisfactory. There should have been no serious adverse features like diversion of funds for personal gains, fraudulent removal of security, recourse to practice of drawing bogus bills, irreconcilable dissentions among partners or other organisational problems of a serious nature. The management should be capable of successful implementation of the nursing programme and its integrity should be above reasonable doubt; this factor is of crucial importance, particularly in view of the fact that a majority of the units have non-corporate form of organisation in the case of which replacement of management may prove difficult. The capability and integrity of the management assume added importance when one keeps in view the increasing shift from 'security' to 'viability' approach in lending by institutions.

(c) The unit can arrest cash losses within a period of 12 months and in exceptional cases within a period of 18 to 24 months, after bearing interest burden on current advances, including those for working capital and term loans (other than financial assistance from SLAF) at normal rates.

(d) The unit can be expected to start paying instalments in equity loan account commencing from at least the sixth year of operation of the rehabilitation programme and repay the liability in all the term loan accounts as scheduled in the nursing programme.

CHAPTER-VI

Administration of SLAF, its size and resources

Administration of Fund

6.1 SLAF is not being conceived as a separate legal entity. It will be only an additional facility available for rehabilitating viable sick units in the small scale industries sector. Assistance from the SLAF facility will be in the form of quasi-equity term loans to industrial units and long term refinance to banks and SFCs. The activities envisaged for the Fund form a part of the general business of IDBI which has built up expertise in overseeing the development of small scale industries through SFCs. The commercial banks are also entitled for refinance assistance from IDBI in this behalf. The Group, therefore, recommends that IDBI should be entrusted with the administration of the Fund.

6.2 Having regard to the large number of units which may have to be assisted, it may not be practicable for IDBI to undertake independent appraisal of the nursing programmes prepared by credit institutions. It should rely on the concerned credit institution for assessment of viability of units and preparation of package proposals for their nursing. The nursing programmes should be finalised by the 'lead institution' (paragraph 4.10 ibid) in co-ordination/consultation with other credit institutions and Technical Consultancy Organisations (TCOs) and/or Small Industries Service Institutes (SISI), if necessary.

6.3 The credit institutions may also enlist the support of the State Level Inter Institutional Committees (SLIICs) functioning under the convenorship of the Regional Offices of the Rural Planning and Credit Department of the RBI. The Group understands that the decisions reached at the meetings of the SLIICs are not accepted by the concerned authorities for immediate implementation and the borrowing units have again to take up the matter individually with them. This entails delay in implementation of the programmes. Government of India should advise the State Governments and other concerned agencies that representations on these Committees should be at a sufficiently high level so that the members who attend the meetings are in a position to give firm commitments in regard to inputs, infrastructural facilities and marketing and other related support to the units.

6.4 The package of nursing assistance, including facilities proposed to be offered from SLAF, should be finalised by Committees to be constituted by IDBI with a representative each from the 'lead institution', IDBI, RBI and the Government representative on SLIICs.

6.5 The work relating to sick units to be assisted with SLAF facility should be handled at the Regional/Zonal/Head Office level of the credit institutions.

Size of the Fund

6.6 Assistance contemplated to be provided to sick units on soft terms comprises two components, viz. (i) equity type of assistance and (ii) refinance for 'clean term loans'. The Group feels that assistance should be restricted to such eligible sick units as have not already been sanctioned nursing assistance by banks/SFCs as on the date from which the facilities from the Fund become available.

6.7 It is not possible to estimate the size of the Fund even fairly precisely in the absence of statistical data relating to all aspects relevant for the purpose. The data relating to sick small scale units financed by banks available with the Reserve Bank are reproduced below:

		No. of units	(Rs. in crores) Amount of outstanding bank credit as at the end of December 1981
1.	Total SSI units assisted by banks	9,67,809	3927.61
2.	Total sick SSI units*	25,342	359.07
3.	(2) as % of (1)	2.62	9.14
4.	Sick SSI units considered as viable	5,082 (20.05)+	168.77 (47.00)+
5.	Sick SSI units considered as not viable	13,471 (53.16)+	128.80 (35.87)+
6.	Sick SSI units in respect of which viability is not yet decided by banks	6,780 (26.79)+	61.50 (17.13)+
7.	Sick SSI units put under nursing programme by banks	1,965 (7.75)+	128.87 (35.89)+
8.	Viable sick SSI units to be put under nursing programme by banks	3,117 (12.30)+	39.90 (11.11)+

* As per RBI definition (vide paragraph 5.1).

\+ Percentage to total sick units.

The above data are based on the definition of sick units advised by RBI to commercial banks for the purpose of their identification as sick units and furnishing of data to RBI. The definition evolved by the Working Group for eligibility of units for SLAF facility is, however, different and hence, units considered by banks as viable according to this modified criterion qualifying for SLAF facilities will have to be identified. Further, the magnitude of sickness in the co-operative sector and among the units assisted by SFCs is not available. As will be seen from the available data (in the table), even on the basis of existing definition, there are 3117 units accounting for Rs. 39.90 crores of advances (as at the end of December 1981) to be put under nursing programme. It is quite possible, looking to the trend, that this category may have expanded since 1981. Hence, taking a broad view of the situation, the Group feels that on a very rough estimate, the size of the Fund initially may be of the order of Rs. 60 crores, for both the types of assistance. While repayment of assistance by the units to the Fund will commence only after a few years, demand for assistance will continue and the Fund will have to be augmented on yearly basis. Taking into account the procedural formalities which may have to be gone through for the setting up of the Fund and in creating machinery for its administration in IDBI and the credit institutions, the Fund's requirements in the first year may be of the order of Rs. 10 crores. Subsequent augmentation could depend upon the progress made in rehabilitating sick small scale units and the quantum of funds needed for the same.

Resources for the Fund

6.8 Having regard to the developmental nature of the assistance, the Group feels that IDBI should create the Fund internally out of the various resources avaliable for conducting its general business viz. borrowings/grants from Government of India, market borrowings, borrowings from RBI, etc. In view of the concessional rates of interest to be charged for assistance from the Fund, the Group recommends that a part of the borrowings from Government to be utilised exclusively for the purpose of the Fund should be interest free and/or Government should partly subsidise the loans from the Fund to the extent of the difference between the normal lending rates of Government and the rates recommended by the Group for soft loan assistance under SLAF. The cost of administering the Fund is expected to be of a small order and could be absorbed by IDBI.

6.9 The Group examined the question of taking recourse to the Development Assistance Fund (DAF) being maintained by IDBI for augmenting resources for the SLAF. Before granting any assistance from this Fund, IDBI has to obtain prior approval of the Government of India for each individual case. The provisions to the IDBI Act, 1964 relating to utilisation of the DAF are given below:

Section 16 (2) : Before seeking the approval of the Central Government under Sub-section (1), the Development Bank shall satisfy itself that banking or other financial institutions or other agencies are not likely to grant such loan or advance to the industrial concern or to enter into any such arrangement with or in relation to the industrial concern in the ordinary course of business.

Section 16(3) : The Central Government, before giving its approval, shall satisfy itself that such loan, advance or arrangement is necessary as a matter of priority in the interests of the industrial development of the country.

The assistance recommended by the Group for sick small scale units viz. equity assistance to units (paragraph 4.8) and refinance to credit institutions at a concessional rate of interest in respect of 'clean term loans' (paragraphs 4.12 and 4.13) are not likely to be granted by banking or other financial institutions or other agencies to sick industrial units in the ordinary course of business. Further, remedial measures, including special type of financial assistance, for nursing of sick units in the priority sector viz. small scale industries are necessary as a matter of priority in the interest of industrial development of the country. The Group, therefore, feels that grant of rehabilitation finance for sick units recommended by it satisfies the criteria mentioned in the sections of IDBI Act quoted above and, therefore, it should be possible for Government to make available adequate resources to IDBI on the analogy of DAF.

6.10 As mentioned in paragraph 3.12 Government of India has been administering margin money scheme for rehabilitation of sick units. If the Group's recommendation for assistance to small scale industrial units in Chapter IV are accepted, it may not be necessary to operate the Scheme. Funds earmarked by the Central/State Governments for providing assistance under this scheme should be made available to IDBI for the purpose of augmenting the resources of SLAF.

6.11 IDBI pays interest tax on its interest earnings on its loaning activity out of the General Fund and Development Assistance Fund. The tax aggregated Rs. 3.43 crores in 1980-81 and Rs. 6.61 crores in 1981-82. The tax liability for 1982-83 is expected to be of the order of Rs. 8.92 crores. With a reduction in the interest tax rate to 3.5 per cent in the current year, tax for the subsequent year is expected to be around Rs. 6 crores. The Group recommends that Government of India may consider allowing the IDBI to retain the amount of interest tax and utilise it for the operations under SLAF.

CHAPTER-VII

Other related matters

7.1 Whatever the cause of sickness of an industrial unit, the sickness ends up in financial difficulties for the unit. Often, therefore, the basic causes of sickness get camouflaged and there is a tendency to look to the credit institutions for ultimate help. Having been financially involved already, the credit institutions attempt to rehabilitate the units in their limited sphere. Their success, however, is conditioned by several factors beyond their control. The Group, therefore, feels that mere creation of credit mechanism would not help in reviving all sick units. The primary causes of sickness of a unit will have to be identified first. If the main cause is in the area of financing, it could be taken care of by the credit institutions. The internal problems in the specific functional areas of the unit like management, financial control, labour relations and skill, marketing ability, etc. can be taken care of at the level of the unit through appropriate measures or by obtaining expert guidance from outside agencies, if possible, with the assistance of financial institutions. As regards external factors, which will include deficiencies in infrastructural facilities like transport, power supply, supply of raw materials, etc., the remedies lie more at the national or Governmental level rather than at the level of the unit or the financial institutions or banks assisting it. These problems may have to be taken up with the concerned Government authorities.

7.2 A strategy for maintaining healthy growth of the small sçale industries sector would need a three pronged approach — preventing birth of unhealthy units, detection of sickness at the incipient stage and initiation of quick remedial action.

(a) Preventive measures

(i) Proper appraisal of projects

It is common experience that the projects of many units set up with institutional finance never become cperative or start incurring losses within a short period of their being commissioned due to lack of proper planning of such factors as could be foreseen at the formative stage itself such as market potential for the product, technical feasibility, competence of the management, availability of raw material, etc. Another reason for the projects of many units proving to be non-starters is that some entrepreneurs deliberately underestimate the cost of the project so as to get themselves classified as small scale units and be entitled to the benefit of wide ranging concessions and also to keep their contribution to the minimum. In the course of implementation, however, the project cost increases and the credit institutions are forced to extend additional financial assistance, in view of their involvements, by relaxing their norms at great risk. The credit institutions should, therefore, upgrade the techniques of appraisal of projects. The various aspects of project appraisal such as technical, managerial and economic feasibility should be thoroughly investigated. Only such units as satisfy the rigid feasibility tests especially the marketability of the products and competence of the management should be taken up for financing. The Group understands that there is a proposal to establish a data bank under the aegis of IDBI which could serve the term lending institutions in structuring their policies. Early implementation of the proposal would help the credit institutions in appraisal of projects.

(ii) Proper follow-up of implementation of the projects

Often, implementation of projects gets delayed due to factors beyond the control of the entrepreneurs such as legal problems, procedural hurdles in getting clearances from the concerned regulatory agencies, non-availability of important construction material, difficulty in getting delivery of machinery on schedule, technological problems at the stage of trial run, etc. Delay in project appraisal, sanction and disbursal of loan as well as inadequacy of credit facilities also adversely affect timely implementation of projects. The time overrun leads to cost overrun sometimes affecting the viability of projects as originally conceived. The Group, therefore, feels that once a unit is taken up for financing, the credit institutions should follow up implementation of their projects closely, with proper co-ordination between banks and SFCs, to ensure that they are completed within the estimated cost and time and in case of genuine difficulties, additional assistance should be granted without delay.

(iii) Avoidance of technical obsolescence

One of the important causes of sickness is that with technological developments and changes in demand pattern the machinery and equipment becomes obsolete and uneconomic. Unless the units modernise in time and keep pace with the technological developments they will tend to become sick. At present there is no distinct scheme to help modernisation of small scale units which have proprietary and partnership forms of organisation. The Group feels that a scheme to provide financial assistance on suitable terms to small scale units for modernisation would help prevent sickness. It is understood that the question of setting up such a scheme is under consideration of IDBI. IDBI should expedite formulation of the scheme

(b) Detection of sickness at the incipient stage

Due to inherent weaknesses in the small scale sector (vide paragraph 1.22), the units are always exposed to vicissitudes of trade and are prone to sickness. Maintaining them in a state of health at all times has to be a continuous process calling for constant vigilance on the part of credit institutions. Due to adverse changes in external factors, the marginal units which are having low profitability are affected first and show a tendency of sickness and unless taken care of may turn sick. The credit institutions should, therefore, have a close follow-up of such marginal units and develop an early warning system of incipient sickness and initiate early corrective steps.

(c) Quick measures to nurse sick units

In case of units identified as sick, quick measures should be taken to reappraise the projects immediately and those found viable should be taken up for nursing with full-fledged assistance without loss of time.

7.3 Detection of sickness at the incipient stage and formulation, implementation and follow-up of nursing programmes call for a co-ordinated approach on the part of banks, term lending institutions and Government departments concerned with the development of small scale industries and provision of infrastructural facilities. In fact, it is lack of such co-ordination which accounts for sickness in the case of many units. In identification of sickness in units, the banks, being in closer touch with the day-to-day working of units, are better placed. The Working Group on co-ordination between SFCs and Banks (Bhide Committee) has recommended that once a unit is identified as sick, the banks and SFCs should undertake immediate diagnostic study through joint inspection, draw comprehensive nursing programmes and fix responsibilities for their monitoring and watching the results achieved. Implementation of the recommendation would help ensure timely assistance to units.

7.4 A major problem area, both for units as well as credit institutions in framing and implementing the nursing programmes, is where the sickness is due to non-financial external factors such as non-availability of infrastructural facilities, essential raw material, etc. The responsibility for ensuring these inputs is that of several Government authorities. Obtaining their clearances and immediate implementation of the assurances given are difficult and time consuming. Delays in implementation of nursing programmes, apart from aggravating sickness and increasing the cost of projects, are likely to prove injurious in certain cases. The men behind the units are driven to desperation especially in the case of smaller units which provide means of livelihood for their owners. This adversely affects the climate for growth of entrepreneurship. Time being the essence of implementation of the projects, it is necessary to provide an effective 'one window service' for obtaining clearances for all infrastructural facilities and assistance under various support schemes. In the limited context of nursing of sick units, the Group suggests that the SLIICs/District Industries Centres (DICs) should play such a role.

7.5 Once a unit is taken up for nursing with the assistance from SLAF after careful identification of its weaknesses and strengths and well drawn nursing programmes based on feasibility studies, care has to be taken to see that the programmes are monitored to ensure their success. An extract from paragraph 5.55 of the Report of the State Bank of India, Study Team (1975) on guidelines for monitoring a nursing programme is given in Annexure X. The monitoring system for each unit would depend on the nature of industrial activity and the sophistication of the manufacturing process. The general guidelines would, however, be:

(a) Introduction of a regular information system for assessing and analysing the liquidity, activity, profitability and prospects of the unit through insistence on submission of periodical returns by the unit (format given at Annexure XI). Besides, a statement of affairs of the unit as per the proforma given at Annexure XII be called for periodically either on a quarterly or half-yearly basis as might be considered necessary by the primary lending institution/s.

(b) The viability study would cover the entire range viz. financial, technical, managerial and procurement of raw material and marketing. The financial part should also indicate the magnitude and sources of funds and the application of these funds. There should, therefore, be a cash budget on a periodic basis drawn up by the industrial unit in consultation with the primary lending institution/s.

(c) The viability study would also have indicated the areas of weakness and strategy to overcome them. This aspect has to be given particular attention and corrective steps taken wherever there is deviation from the original assumption. The primary lending institution will have to send a report on the above aspects to the authorities granting soft loan facilities at such periodical intervals as might be called upon by the latter.

7.6 There are several non-financial factors which affect the health of units. For example, technological developments adopted by certain units in an industry affect the competitive strength of other units. Similarly, changing demand patterns call for change in product mix necessitating change in machinery and equipment. Till such time the units modernise and become competitive, they may develop symptoms of sickness. The Group has not gone into these details. It, however, suggests that IDBI which will be administering the SLAF should collect and analyse adequate statistical data relating to industry-wise and region-wise distribution of sick units, undertake studies to locate their problem areas and find appropriate solutions by enlisting the support of DICs, SISIs or voluntary organisations. These studies could help Government in formulating policies.

7.7 The Group also makes the following suggestions for consideration by the appropriate authorities :

(i) The sick units, particularly the small ones, face considerable difficulties in realising their dues on time from large scale units, public sector undertakings and Government departments against supplies. This creates liquidity problems for sick units. Reserve Bank has advised the commercial banks to obtain from their client units in the large scale sector necessary data regarding their outstanding dues to small scale units and ensure, as far as possible, that payments are made without delay. The banks have also been advised that while sanctioning credit limits to medium/large industries, separate sub-limits should be fixed for acceptance/letters of credit facilities within the overall credit limits which should be utilised only in respect of their purchases from small scale industries, the quantum of sub-limits being decided upon by the proportion of purchases from small scale industries sector and other relevant factors. It is important that suitable measures are taken to ensure prompt payment of dues by Government departments and public sector undertakings. SLIICs should take up the matter with the concerned Government departments and review the position in this regard periodically.

(ii) One of the major causes of sickness in the case of small scale industrial units is their small equity base. In order to ensure that units are set up with adequate equity base, the suggestion for setting up of a National Equity Fund made by several working Groups/Committees on problems of financing of small scale industries (vide paragraph 3.15) which is pending with Government, should be considered for implementation early.

(iii) A serious limitation faced by credit institutions in extending equity assistance to small scale industrial units is that a predominantly large number of these units are non-corporate entities. To ease this constraint, the concept of limited partnership with a guaranteed minimum interest should be considered for implementation.

(iv) With a view to improving the managerial competence of entrepreneurs in small scale industries sector which is a major factor accounting for the success or failure of a unit, there should be educational programmes for the entrepreneurs on the various aspects of management — financial, production, personnel, marketing, export etc. Though at present such programmes are being held, they are required to be replicated on a large scale jointly by banks and voluntary organisations.

(v) Sick units which are taken up for assistance from SLAF should be protected from any possible impediments in their operations which unsecured creditors might bring through litigations. Under the Bombay Relief Undertakings Act in Maharashtra State certain creditors of a sick unit can be debarred from going in for liquidation proceedings to recover their dues by declaring the unit as a relief undertaking under the said Act. The Group recommends that a sick unit assisted from SLAF should, as a matter of policy, be declared as a relief undertaking under similar Acts in the States wherever they exist and the States where such Acts do not exist may consider enacting suitable legislation for protecting sick units under rehabilitation programmes.

(vi) In order to ensure successful implementation of nursing programmes of units undertaken with SLAF assistance, the Group also recommends that the State Governments should provide active support in the following areas:

(a) Preferential treatment in the matter of supply of raw material/s, electricity, etc.

(b) Early clearance for sale/lease of land of the sick units under Urban Land (Ceiling and Regulations) Act to augment the funds with the sick units if nursing programmes so contemplate.

(c) Preference in Government purchases over and above those normally admissible to the units in SSI sector.

(vii) The Reserve Bank of India has appointed a Committee headed by Shri T. Tiwari, Chairman, Industrial Reconstruction Corporation of India Limited (IRCI) to examine the legal and other difficulties faced by banks and financial institutions in rehabilitation of sick industrial undertakings and suggest remedial measures, including changes in the law. The Group feels that any other fiscal concessions or remedies which the Committee might recommend, to the extent relevant, may be extended to sick units in the small scale sector also.

ANNEXURE - I

Advances by scheduled commercial banks to small scale industries*

(Rupees in crores)

As on the last Friday of		No. of units	Limits sanctioned	Balance Outstanding
			Rs.	Rs.
June	1968	38927	375.30	189.80
December	1969	71594	698.06	346.89
„	1970	102687	856.19	469.10
		(43.43)	(22.65)	(35.23)
„	1971	118779	913.84	542.32
		(15.67)	(6.65)	(15.61)
„	1972	142315	1058.60	646.31
		(19.81)	(15.84)	(19.18)
„	1973	200563	1346.50	858.60
		(40.93)	(27.20)	(32.85)
„	1974	227423	1529.97	1017.43
		(13.39)	(13.63)	(18.50)
„	1975	269299	1715.46	1147.29
		(18.41)	(12.12)	(12.77)
„	1976	397022	1996.21	1421.08
		(47.43)	(16.37)	(23.86)
„	1977	475690	2281.60	1705.51
		(19.81)	(14.30)	(20.02)
„	1978	558265	2770.61	2162.66
		(17.36)	(21.43)	(26.80)
„	1979	680731	3303.46	2632.77
		(21.94)	(19.23)	(21.74)
„	1980	794436	3933.00	3136.48
		(16.70)	(19.06)	(19.13)
June	1981@	867989	4354.89	3514.79
		(9.26)	(10.73)	(12.06)
December	1982	—	—	4301.00
				(22.37)

* Including term loans, instalment credits & advances to craftsmen & other qualified entrepreneurs. (From the year 1979 onwards also include artisans, village & cottage industries and tiny sector).

@ Please see next page for State-wise break-up of the data.

NOTE : (i) Figures in brackets show percentage increase.

(ii) From September 1975 onwards data cover advances to small-scale industrial units having investment in plant and machinery upto Rs. 10 lakhs as against Rs. 7.50 lakhs for the earlier period.

State-wise position of loans and advances granted by scheduled commercial banks to small scale industries as at the end of June 1981 (Last Friday)

(Rs. in lakhs)

Sr. No.	Name of the State/ Union Territory	Total Loans and Advances to S.S.I.		
		No. of Units	Limits sanctioned	Balance Outstanding
1.	2.	3.	4.	5.
1.	Andhra Pradesh	67135	24665.12	20781.53
2.	Bihar	43572	9956.75	9266.54
3.	Assam	14319	2484.87	2325.71
4.	Chandigarh	1909	2851.37	1765.98
5.	Gujarat	52207	38140.14	28111.56
6.	Haryana	18428	16866.08	12541.35
7.	Himachal Pradesh	6467	1648.27	1355.11
8.	Jammu and Kashmir	13123	3395.24	2781.51
9.	Karnataka	59823	25790.42	21888.17
10.	Kerala	52703	25087.73	19922.13
11.	Madhya Pradesh	47179	12940.57	10752.76
12.	Maharashtra	61635	79407.68	64084.67
13.	Orissa	38015	4409.45	3802.21
14.	Punjab	39840	31850.70	21314.43
15.	Rajasthan	44628	12803.93	9957.06
16.	Uttar Pradesh	100695	35951.02	31447.37
17.	West Bengal	68265	31702.76	26639.55
18.	Arunachal Pradesh	81	9.55	7.91
19.	Delhi	15053	27437.60	22958.75
20.	Manipur	1175	37.06	29.96
21.	Meghalaya	1072	92.15	67.32
22.	Mizoram	145	8.71	5.53
23.	Nagaland	1044	166.68	143.62
24.	Goa, Daman & Diu	1935	2057.87	1791.23
25.	Dadra & Nagar Haveli	51	146.10	75.68
26.	Tripura	1530	181.12	147.66
27.	Sikkim	64	1.85	1.36
28.	Pondicherry	1548	680.01	568.99
29.	Lakshadweep	1	0.17	0.17
30.	Andaman and Nicobar	47	6.82	5.70
31.	Tamil Nadu	114300	44711.08	36937.59
	TOTAL	867989	435488.87	351479.11

ANNEXURE - II

Financial Assistance sanctioned and disbursed by State Financial Corporations to Small Scale Industries (Other than SRTOs)

(Rs. in crores)

Year (April-March)	No. of Loans	Sanctions	Disbursements	Outstandings
1970-71	4639	35.1	24.8	51.5
1971-72	3969	44.2 (26.0)	25.9	60.5
1972-73	3778	50.4 (14.1)	31.2	84.3
1973-74	4501	63.1 (25.2)	32.9	112.6
1974-75	5237	76.3 (20.8)	46.6	152.9
1975-76	6186	84.2 (10.3)	52.1	200.4
1976-77	6726	106.0 (25.9)	56.6	244.0
1977-78	6861	105.3 (-)	63.8	281.9
1978-79	6478	135.1 (28.3)	85.0	354.2
1979-80	15278	185.1 (37.0)	130.0	492.5
1980-81	26323	270.4 (46.1)	177.6	587.7
1981-82 (Provisional)	26232	340.0 (25.7)	230.4	708.1

Note : Figures in brackets show percentage rise.

Source : Annual Reports of State Financial Corporations including Tamilnadu Industrial Investment Corporation Limited and Industrial Development Bank of India.

ANNEXURE - III

Advances by Central Financing Agencies to Weavers and other industrial co-operative societies and by urban banks to small scale industries

(Rs. in lakhs)

Year ending	Central Financing Agencies advances to			Urban banks advances to SSIs	Grand Total
	Weavers societies	Other industrial societies	Total		
JUNE					
1970	1025.37	676.11	1701.48	1285.06	2986.54
1971	992.76	678.00	1670.76	1639.07	3309.83
1972	1163.96	728.40	1892.36	1598.36	3490.72
1973	1222.00	810.07	2032.07	2076.14	4108.21
1974	1416.04	914.99	2331.03	2506.00	4837.03
1975	1648.86	843.89	2492.75	2672.78	5165.53
1976	1768.09	1154.64	2922.73	3183.45	6106.18
1977	1733.32	1316.92	3050.24	5219.80	8270.04
1978	1539.81	1149.08	2688.89	5947.26	8636.15
1979	3153.06	1351.05	4504.11	6558.83	11062.94
1980* £	3243.30	1482.86	4726.16	11042.19@	15768.35

* Please see next page for State-wise break-up of the data.

£ Data Provisional.

@ Data relate to urban banks coming under the purview of the B.R. Act, 1949 (as applicable to co-operative societies).

State-wise position of the advances by Central Financing Agencies to weavers and other industrial co-operative societies and by urban banks to small scale industries during the year 1979-80

(Rs. in lakhs)

Sr. No.	State	Central Financing Agencies — Loans and Advances Outstanding against: Weavers societies	Other industrial societies	Total	Urban banks advances to SSIs*	Grand Total
1.	2.	3.	4.	5.	6.	7
1.	Andhra Pradesh	533.24	2.02	535.26	26.42	561.68
2.	Assam	1.37	0.14	1.51	256.43	257.94
3.	Bihar	21.61	8.82**	30.43	—	30.43
4.	Gujarat	97.71	162.55	260.26	5641.02	5901.28
5.	Haryana	49.80	142.04	191.84	—	191.84
6.	Himachal Pradesh	0.39	25.71	26.10	—	26.10
7.	Jammu & Kashmir	3.15	—	3.15	N.A.	3.15
8.	Karnataka	113.67	114.99	228.66	125.22	353.88
9.	Kerala	N.A.	88.37	88.37	172.84	261.21
10.	Madhya Pradesh	105.73	24.31	130.04	13.98	144.02
11.	Maharashtra	428.41	503.83	932.24	4446.26	5378.50
12.	Manipur	—	—	—	4.81	4.81
13.	Meghalaya	—	0.09	0.09	0.11	0.20
14.	Nagaland	—	—	—	—	—
15.	Orissa	144.37	23.10	167.47	17.37	184.84
16.	Punjab	19.20	97.42	116.62	—	116.62
17.	Rajasthan	29.54	11.11	40.65	7.90	48.55

1.	2.	3.	4.	5.	6.	7
18.	Tamil Nadu	1202.43**	223.14**	1425.57**	195.46	1621.03
19.	Tripura	—	0.95	0.95	—	0.95
20.	Uttar Pradesh	421.38	—	421.38	43.78	465.16
21.	West Bengal	39.43	43.63	83.06	32.40	115.46
22.	Chandigarh	0.02	0.15	0.17	—	0.17
23.	Delhi	7.48	8.97	16.45	—	16.45
24.	Goa, Daman & Diu	—	0.36	0.36	49.94	50.30
25.	Lakshadweep	—	—	—	—	—
26.	Pondicherry	24.37	0.84	25.21	8.25	33.46
27.	Andaman and Nicobar Islands	—	0.32	0.32	—	0.32
28.	Arunachal Pradesh	—	—	—	—	—
29.	Dadra & Nagar Haveli	—	—	—	—	—
		3243.30	1482.86	4726.16	11042.19	15768.35

* Coming under the purview of B.R. Act, 1949

(As applicable to Co-operative Societies).

** Data relating to 1978-79.

ANNEXURE—IV

Sick units in the Small Scale Sector
Analysis of causes

A unit becomes sick when it cannot generate from internal sources necessary working funds to permit continuous operation at the optimum level. Internal cash generation is the most important indicator of the health of a unit and will therefore be the starting point of our investigations.

Lack of working funds

Drop in internal cash generation

Drop in production

Poor cash management

A. Deliberate diversion of funds
B. Well intentioned but unwise diversion (e.g. unplanned diversification)
C. Poor collections
D. Unplanned payments to creditors
E. High inventory
F. Unproductive and flamboyant expenditure

Increased cost of production

Problems in production

A. Machine breakdowns, poor maintenance.
B. Poor quality of raw materials.
C. Poor labour productivity.
D. Power shortage.
E. Lack of production planning & control.
F. Delayed supplies from sub-contractors.
G. Poor industrial relations.

Lack of orders

A. Competition
B. Recession.
C. Low quality-Technical incompetence.
D. Irregular deliveries.
E. Poor marketing effort.
F. Obsolescence.
G. Power shortage.
H. Government policies.

Lack of raw materials

A. National or regional shortage.
B. High cost.
C. Overdue payments to suppliers.
D. Poor quality.
E. Uncertain supplies.
F. Lack of planning.

Increased cost of raw material

A. Increased costs not recovered in selling prices due to faulty costing.
B. Large order book at fixed prices in an inflationary market.
C. High material wastage.
D. High inventory costs.

Increased overhead costs

A. Inefficient production
B. Unutilised capacity.
C. Heavy borrowings, higher interest charges.
D. Increased administration or selling costs.
E. Unplanned capital expenditure.
F. New product development or diversification.

Source: Report of the Study Team of the State Bank of India 1975—Role of the bank in the effective growth of small scale industries.

ANNEXURE-V

Brief review of the recommendations in the reports of Committees/Groups set up to study the problems of sick small scale industrial units

1. Report of the Study Team of State Bank of India

The State Bank of India had set up a study Team (1975) under Shri J. S. Varshneya:

(a) To determine the factors which contribute to the unsatisfactory features and to suggest a strategy designed to detect such features well in advance.

(b) To examine in depth the bank's policy/procedures relating to the selection of borrowers, appraisal of proposals, assessment of credit needs and control and follow-up in the context of the unsatisfactory accounts and to suggest changes/modifications in regard to each of these aspects.

(c) To examine the efficacy of nursing programmes adopted by the bank in respect of unsatisfactory accounts and to recommend remedial measures aimed at improving upon such efforts in future.

Accordingly, 120 units (100 sick units and 20 success units) were selected for the purpose of the Study. The Team's findings showed that most of the small-scale units had certain basic shortcomings, such as, limited resources, lack of equity, lack of appreciation of the requirements of a properly run industry, particularly in financial management and lack of planned and organised approach. The Team felt that the bank should assume a new role-as a purveyor not merely of finance but also of the know-how on the use of it. Their recommendations, therefore, related to the preparation of counselling material dealing with basic requirements of managing a small scale unit, increased use of the bank's own consultancy cell/management consultants, training and education of borrowers, formation of a National Equity Fund, etc. The decision making process both at the branch and controlling authority level was also examined by the Study Team and the main recommendations made in this behalf related to improved appraisal and follow-up procedures, guidelines for nursing sick units, technical support at the selected branches, more frequent personal discussions with the borrower, etc. Necessary follow-up action in regard to the conduct of a nursing programme and monitoring its progress, etc. was taken by the bank.

2. Report of the Working Group on co-ordination between SFCs and banks (1977)

The Group, inter alia, considered the problem of coordination in the case of sick units. It emphasised the need for paying much more concerted and concentrated attention, than in the past, by banks and SFCs by developing a system for picking up the early symptoms of sickness of the unit at the incipient stage itself. Once the signs of sickness of a unit are known, there should be an immediate joint diagnostic study of the nature of problems faced by it with a view to evolving suitable remedial measures, preparation of a comprehensive programme for nursing in case the unit is found viable, a study of its financial implications and working out the share of each institution in meeting the additional requirements. The institution with higher financial stake should take initiative in this behalf. If the nursing programme requires measures, such as change in the management of the unit, appointment of competent personnel to run it, etc., the matter should be settled by the concerned institutions in mutual consultation with each other.

3. Report of the High-Powered Committee for examining bank credit problems of small scale units — 1978

A committee under the Chairmanship of Shri I. C. Puri, the then Development Commissioner (SSI), Government of India, was set up for examining bank credit problems of SSIs. The main recommendations related to simplification of application forms, review of repayment schedules where the unit is unable to make payments due to genuine reasons, early disposal of loan applications, flexible approach towards margin requirements, collateral security, etc. The Committee felt that a low equity base has an adverse impact on the well-being of the units. Since most small-scale industrialists have limited resources of their own and as they do not have ready access to capital market, the Committee recommended that a National Equity Fund should be set up to help such units or similar institutional support through Government agencies should be given.

Another recommendation was that the banks should utilise the services of Small Industries Service Institutes (SISIs) for assessing the viability of the projects as also in the rehabilitation of sick units. Suitable guidelines were issued to the banks in this regard by RBI.

4. Studies by Development Banking Centre, Management Development Institute, New Delhi.

The Development Banking Centre (DBC), at the instance of IDBI, undertook during April 1979 — January 1980, region-wise studies and also organised regional seminars to:

(i) assess the incidence of sickness among small and medium scale units in the portfolios of SFCs;

(ii) identify appropriate measures for remedying sickness at the incipient stage;

(iii) analyse the factors affecting individual projects during the implementation and operational stages; and

(iv) formulate suitable monitoring system for effective follow-up.

These studies/seminars emphasised the need for

(a) establishing a close rapport with the entrepreneurs from the initial stage onwards;

(b) making realistic assessment of the project cost and contingencies, particularly improvement in appraisal standards;

(c) close monitoring during the implementation and initial operational stages;

(d) developing the entrepreneurs through training and attuning them for adjustment to the environmental changes;

(e) close coordination between term lending institutions, banks and Governmental agencies;

(f) making reasonable delegation of powers to officials at the grass root levels and equipping them through training for undertaking new responsibilities;

(g) introduction of adequate information system even for a small unit for getting feedback;

(h) Involvement of the State Governments in the rehabilitation of sick units (e.g. framing suitable legislation to protect the sick units and to freeze all liabilities, showing concessions in the collection of statutory dues, etc.);

(i) avoiding compounding of interest during the production period;

(j) sharing of cash losses (like sharing of cash accruals) by financial institutions and commercial banks in the ratio of their respective total loans outstanding, creation of a National Equity Fund to finance cash losses; alternatively, to place at the disposal of SFCs a certain amount exclusively for financing cash losses.

The SFCs and State Industrial Development Corporations (SIDCs) have since been advised by IDBI to initiate necessary action on the various suggestions made in the studies/seminars.

5. Techno-economic diagnosis of major defaulting units of Gujarat State Financial Corporation (GSFC) — Report of the Gujarat Industrial and Technical Consultancy Organisation Ltd. (GITCO) — 1981

At the instance of GSFC, the GITCO had conducted an in-depth analysis of 28 major defaulting units financed by them and the important findings thereof are as under:

(i) As management incapability explains a large number of failures, the appraisal of the project should take care of the entrepreneurial orientation, the competence of entrepreneurs in various areas of management and the degree of commitment to the project.

(ii) Since strong family disputes are found to be a major operational problem in the case of family firms and firms in which there are a number of lady partners/directors, an attempt should be made to evaluate the cohesiveness of such family management.

(iii) While appraising the project, care should be taken to see that necessary infrastructure exists, as otherwise it will lead to delays in project execution and cost escalation rendering the original projections meaningless.

(iv) Care should be taken to see that there is no break in communication between the Corporation and the borrowers which causes delay in disbursal of loans. Planned and regular meetings with the bankers and the entrepreneurs are required to guide the course of events of the borrowing units.

(v) The Corporation should review and revise its policies and procedures regarding the approval of machinery suppliers for the projects sanctioned by it.

(vi) Follow-up should be viewed as a professional function rather than a routine administrative policy function. The persons employed for follow-up functions should not be merely data collectors or dues collectors but should be able to judge whether the unit is in a proper state of health.

(vii) The proposals for reschedulement should be treated as an opportunity to reappraise the project.

6. Government of Gujarat's 'Adoption Scheme' for revival of sick small scale units

The Government of Gujarat have, in March 1980, introduced a scheme for adoption of sick small scale industrial units by the Gujarat Industrial and Technical Consultancy Organisation Ltd. (GITCO)/a successful medium or large scale industrial unit in Gujarat. The objective is to utilise and share techno-managerial, commercial and organisational expertise and resources of the successful large and medium scale units. Thus, a successful medium/large unit adopting a small sick unit is expected to provide comprehensive, intensive help and guidance in all the functional areas of management of the sick unit such as finance, marketing, production, procurement and personnel. In short, the medium/large unit will have to 'look after' the operations of the adopted unit as if the small unit were its own. It will not in any way take over the ownership of the unit. GITCO will monitor the relationship between the adoptor and the adopted units. The duration of the adoption scheme will be three years.

The scheme envisages a financial compensation of Rs. 10,000 per annum per unit, for a maximum period of three years, to the adoptor unit for meeting its cost of related expenses. The units to be assisted under the scheme are to be approved by the State Government which will bear the cost of compensation.

7. Government of Gujarat's scheme for providing working capital to sick units.

Government of Gujarat have, in May 1981, formulated a scheme for revival of sick units by providing them with working capital assistance through Gujarat Industrial Co-operative Bank, as the commercial banks are reluctant to advance additional working capital funds even to technically viable sick small-scale units. The scheme is intended to help the genuinely sick small scale units run by competent entrepreneurs whose integrity is beyond doubt, and where the unit's revival is hampered by the paucity of working capital funds.

Under the Scheme, the GITCO will diagnose the sickness of the unit referred to it by the State Level Sick Unit Committee and recommend the quantum of rehabilitation assistance. Gujarat Industrial Co-operative Bank will provide the additional working capital finance and monitoring of the sick units will be undertaken by GITCO for a period of three years.

For enabling the Gujarat Industrial Co-operative Bank to provide the necessary finance, the State Government have directed the GSFC and the Gujarat Industrial Investment Corporation to place a sum of Rs. 25 lakhs each as deposit with the bank. In case the Corporations require any funds from their deposits with the bank, the State Government will meet their needs by way of direct loans.

The scheme envisages co-operation of the commercial banks which have assisted the units for the successful implementation of the nursing programmes. The concerned commercial banks will be invited to participate in the State Level Committee meetings and they are requested to freeze the old accounts and to forgo interest on interest and penal interest. They are also required not to take any legal action against the units which are being nursed. Further, the banks shall have no charge on the fixed and current assets acquired by the units after freezing the debts. Once the unit is revived, the concerned bank will take over the entire outstanding from the Gujarat Industrial Co-operative Bank. The Scheme has not yet been made operative.

ANNEXURE - VI

Proforma sent to members for furnishing information regarding typical cases of sick units nursed by their institutions

Illustrative Guidelines :

1. 20 case studies from each bank/corporation may be selected, divided into sole proprietors, partnership firms, private limited companies.

2. At least 18 of the 20 cases should relate to small scale industrial units and the remaining 2 could relate to medium scale units.

3. The units should be classified according to the value of investment in plant and machinery as under :

   (a) units having investment in plant and machinery upto Rs. 1 lakh;

   (b) units having investment in plant and machinery between Rs. 1 lakh and 5 lakhs;

   (c) units having investment in plant and machinery between Rs. 5 lakhs and 10 lakhs; and

   (d) units having investment in plant and machinery upto Rs 15 lakhs in respect of ancillary units and marginal medium scale units.

4. There should be at least 5 cases as far as possible in categories (a) to (c) which should include at least 1 case each of a successful and unsuccessful nursing programme and 2 in category (d).

5. Units may be selected from different 'industries group' to the extent possible.

6. The criteria adopted for identifying the units as sick may be indicated.

Points to be covered about the unit taken up for rehabilitation

1. Name of the credit institution :

2. Name of the unit and address :

3. Location : Whether in backward area :

4. Dates of establishment and commencement of operations :

5. Type of industry :

6. Products manufactured (in brief) :

7. Original value of investment in plant and machinery :

8. Names of the other financing institutions, if any :

9. Details of credit facilities sanctioned by the other financing institutions :

10. Particulars of credit facilities sanctioned to the unit and the position of the accounts at the time of decision to nurse the unit :

Date of sanction	Nature of facility	Limit (Rs.)	Out-standings (Rs.)	Amount of interest debited to the a/c. after default/ the a/c. became sticky (Rs.)	Value of Seurity (Rs.)	Irregularity (Rs.)

11. What were the initial symptoms of sickness, when they were noticed and what were the preliminary measures taken, with what results :

12. What were the causes of sickness (area of weaknesses such as inadequate working capital, non-availability of raw-materials, labour trouble, marketing, etc. may be specified). Please specify under heads

    (i) financial :

    (ii) non-financial :

13. Whether the causes at item 12 could not be anticipated at the time of sanction of limits originally/project assessment :

14. If they were anticipated whether and if so, when precautionary measures were taken may be indicated :

15. Details of the nursing programme :

(a) Action plan for revival

(b) Financial aspect :

(i) Extent of additional finance extended :

(ii) Nature of additional credit facilities sanctioned and limits :

(iii) Terms of sanction indicating the rate of interest, schedule of repayment, security, etc. (The exact nature of concessions granted to the unit may be given in detail indicating the reasons therefor)

(iv) An estimate of sacrifice in financial terms suffered year-wise by credit institution on account of

	I year Rs.	II year Rs.	etc
(a) Waiver of interest on old accounts			
(b) Reduction in the rate of interest :			
(c) Scaling down of dues :			
(d) Additional financial involvement under the nursing programme			
(e) Reschedulement of loans/ grant of moratorium :			
(f) Any other concessions :			
TOTAL			

(c) Non-financial aspects :
(Indicate steps taken to overcome the various difficulties faced by the unit and the role played by other agencies)

(d) Following information for each year of the nursing programme :

(i) Profit before tax, but interest and depreciation added back. Profit before tax; Profit after tax/or loss; Cash accruals/ loss; Debt equity ratios; Current ratios. :

(ii) Cash flow statement (Projections and actuals) :

(e) Factors responsible for success or failure of the nursing programme :

(i) Technical

(ii) Economic-Financial and non-financial

(iii) Managerial

(f) In which year of the nursing programme the new break-even point was attained

(g) The position of the unit's account at the end of the period of the nursing programme :

Nature of facility	Limit Rs.	Outstandings Rs.	Value of security Rs.

16. In what form and to what extent the bank/Corporation would expect assistance from the proposed Soft Loan Assistance Fund in respect of this unit :

17. Any other information having relevance to the terms of reference :

ANNEXURE — VII

IRCI Scheme : Line of chedit scheme for assistance to small scale units

The Industrial Reconstruction Corporation of India Ltd. (IRCI) is a public financial institution, which has been assigned a special role in overcoming industrial sickness. IRCI does not duplicate the functions of other financial institutions and banks, but provides for those elements of financing which are not provided by these institutions, in the normal course. Consequently the Corporation provides margin money for additional working capital, limited capital expenditure for any balancing equipment essential for long term viability, and start up expenses. The additional working capital is expected to flow from the banking sector. Over and above this, the Corporation does not function as a lending institution in the ordinary sense, but as a reconstruction agency interested in the diagnosis and removal of sickness. It also acts as a catalyst for securing assistance from banks/financial institutions involved in the revival of sick units.

Having regard to the inherent and distinctive nature of the problems encountered in the revival of sick units in the small scale sector and based on such experience as the IRCI has in dealing with them, it would appear that the approach, the methodology and the agencies involved will have to be different from those applicable to large or medium scale units. This distinction arises from their very nature. Let us take three common problems of sickness in small scale units, viz., marketing, raw materials and components, and credit. When a small scale unit experiences difficulties in marketing, it is not much use suggesting that it employ a marketing manager, because the unit cannot afford this. Nor is a report from a marketing consultant very useful, because probably the unit will not know how to implement it. What the unit really needs is someone who will buy its products and sell them for it. Similarly, any meaningful assistance in the matter of raw materials or components will mean actual purchase and supply. Such assistance has necessarily to be rendered at the local level. The primary role in tackling the common problems of sickness in the small scale units has thus to be played by a suitable agency at the State Level which can undertake such functions, effectively in view of;

(1) their intimate knowledge of the local conditions and background of the entrepreneurs;

(2) their physical proximity (a) for monitoring the progress of implementation of the scheme of revival and for co-ordination with other

agencies involved and (b) for liaison with State Government and other statutory bodies.

The Scheme

It is in this background that IRCI has evolved a scheme for extending assistance to sick small scale units. The broad principles on the basis of which this scheme is being operated, are indicated below:-

(a) Assistance may be extended to a State Level Corporation which in the opinion of IRCI, has the requisite competence to monitor the operations of sick units.

(b) The scheme of revival and rehabilitation of one or more limited number of units in a related field may be prepared by the State Level Corporation in prior consultation and association with the IRCI and the commercial bank concerned. The IRCI will extend such technical or other advice and assistance as may be necessary and possible.

(c) IRCI will render all possible advice and assistance to the State Level Corporation in the course of implementation of the scheme as may be necessary and possible.

(d) In arriving at the share of financial assistance which the IRCI may agree to extend in respect of any such scheme, it should be a pre-condition that any past liabilities or irregularities pertaining to financial institutions or banks and not represented by corresponding assets, should be frozen and funded, and that the State Level Corporation should identify an appropriate source which would undertake the responsibility for meeting future cash losses, if any. The prior agreement of the commercial bank concerned to meet reasonable requirements of working capital, according to the agreed scheme, should be obtained. In other words, IRCI assistance, will be confined to such requirements as 'start-up' expenses, margin money and moderate amounts of capital expenditure.

The flexibility of the scheme and the extent to which it differs from other conventional sources of finance will be evident from the fact that loan assistance is made available to cover the following elements :

(i) Margin for additional working capital as projected in the agreed revival programme.

(ii) If the projected revival programme calls for reduction in the existing man power, termination benefits of surplus labour.

(iii) Need based start up expenses to cover the restarting closed units.

(iv) Limited capital expenditure inclusive of the installation cost to finance balancing plant and equipment without any margin.

(v) The entire loan is presently provided at a rate of interest of $7\frac{1}{2}\%$ p.a. (this is subject to revision).

Terms and conditions

1. The loan will be made available to the State Level Corporation by way of a line of credit, to be drawn upon and disbursed to units as and when schemes of revival are accepted by all agencies involved. The loan disbursed will have the attributes of a direct term loan by the IRCI to the State Level Corporation.
2. The State Level Corporation will undertake to repay the loan to IRCI as per an agreed repayment schedule, without reference to their recoveries, which could be earlier or later.
3. No spread will be allowed on the rate of interest to be charged by the State Level Corporation. However, the actual costs incurred, such as consultancy expenses etc. may be recovered from the unit.
4. A general agreement to be executed between IRCI and the State Level Corporation embodying the terms and conditions as set out above, will serve as the legal documentation to back up the line of credit.

General

1. The State Level Corporation may enter into such legal and security arrangements with individual assisted units as may be appropriate.
2. The State Level Corporation will forward to IRCI periodic reports on the performance of the units and progress of the scheme and periodic review meetings will be arranged.
3. The State Level Corporation will ensure that a representative(s) at appropriate level from the commercial banks concerned joins the study team for appraisal, so that additional credits and concessions/reliefs projected in the schemes of revival are extended within a reasonable period, after obtaining necessary approvals from appropriate levels.

ANNEXURE - VIII

Broad illustrative hints for scrutiny of profit and loss accounts and balance sheets of the sick units for arriving at cash loss

(1) Expenses like payment of salaries, conveyance, T.A., D.A., car maintenance, etc. to the owners/partners/directors or any payments by way of rent, commission for sales, etc. due to them or to any of their associates should be examined to ensure that they are reasonable.

(2) Items like drawings by partners/proprietors, donations, bad debts written off without filing a suit, etc. should not be taken into account for the purpose of cash losses.

(3) Costing of raw materials and other inputs should not be excessive in the sense that no siphoning off of funds is involved in purchases of raw materials and other inputs either by direct or indirect means viz. by making purchases from sister organisations or through associates, etc.

(4) Rates of interest on unsecured loans and deposits from friends/relatives/directors should be reasonable.

(5) The sale prices of the products of the unit should be realistic and in accordance with the current market trends. The conversion rate or input-output ratio should be realistic. Sale of scrap or bye products should be properly accounted for. Selling organisations and the list of customers should be examined to satisfy that no siphoning is possible or likely.

(6) There must be no advances of funds by the sick unit to others, including associate companies and no services should be provided free of cost or at nominal cost.

ANNEXURE - IX

Proforma for the information to be obtained from the unit for computation of cash losses

	I year	II year
A. (i) Goods sold and despatched (Net of rejections)		
Cash		
Credit		
(ii) Other income		
Total of 'A'		
B. Cost of raw materials, stores and other inputs to be paid		
Purchases		
Add : Opening stock		
Less : Closing stock		
Materials consumed		
Other inputs		
Total of 'B'		
C. Cost of labour including statutory payments like PF, ESI, etc. to be paid		
D. Contribution [A — (B + C)]		
E. Other factory administration expenses and sales expenses		
F. Managerial remuneration		
G. Interest		
H. Net surplus/deficit [D — (E + F + G)]		
I. Add : Opening stock of finished goods (Quantity & Value)		
Less : Closing stock of finished goods (Quantity & Value)		
Cash Profit/Loss		

ANNEXURE - X

Guidelines for monitoring a nursing programme

(An extract of paragraph 5.55 from the Report of the Study Team of the State Bank of India — 1975)

As already mentioned, there is no margin for error in a nursing programme. It is necessary, therefore, that once the action plan has been drawn up and approved, the implementation strictly follows the lines indicated in the plan. This can be ensured by introducing a suitable monitoring system which will check the progress of the nursing efforts from time to time.

Recommendation

The details of the monitoring system for each unit will depend on the nature of the industrial activity and the sophistication of the manufacturing process. The following, however, will serve as a general guide for this purpose.

(i) Management Information System :

Such a system should be set up immediately. Without this system, neither the borrower nor the Bank will be able to assess the progress of the nursing programme. A specimen information system is given in Exhibit 5.11 and this could be used with suitable variations. This system should be adequate to provide necessary information for the monthly review meetings referred to later.

(ii) End-use of Additional Funds :

Since the nursing programme usually involves outlay of additional funds, it is necessary to ensure that these funds are properly used for the purpose intended. The action plan would have indicated the magnitude and source of funds and the application of these funds. There should preferably be a cash budget on a periodic basis (Exhibit 5.12) drawn up in consultation with the Bank. This should enable the borrower to get timely disbursement from the Bank.

(iii) Monitoring of areas of weakness :

The action plan would have indicated the areas of weakness and the strategy for overcoming them. It is necessary that this aspect is given particular attention, as otherwise, the success of the nursing effort will remain in doubt. For instance, if marketing had earlier been found as a major area of weakness, it must be ensured that suitable steps for improving the marketing effort such as, additional salesmen/dealers, publicity material, product design and pricing strategy are taken by the borrower.

In several cases, the weakness may be in the organisation. Suitable steps must be taken to ensure that the organisation is strengthened by the appointment of additional personnel. Where a Management Consultant is brought into the picture, his presence will have the indirect effect of strengthening the organisation for the duration of his stay. However, care must be taken to build up the organisation on a long term basis during this period.

(iv) Monitoring Meetings :

There must be monthly meetings between the borrower and the Bank to assess the progress of implementation. Where a Management Consultant is associated with the nursing programme, he should preferably be present at the monthly meetings.

The objective of these monthly meetings is to review the progress achieved. If any adverse variances are observed, suitable corrective actions could be taken up for review at these meetings :

(a) production and sales,

(b) profitability and internal surplus,

(c) working capital management (e.g. collections, inventory, creditors, etc.) and

(d) position of Bank borrowings.

A few typical statements which could be used for monitoring these indicators are shown in Exhibit 5.13.

EXHIBIT 5.11

Management Information Systems

[Vide Annexure X — Item (i)]

Basically, an information system is a mechanism that feeds data to a control centre at periodic intervals on various sub-systems within an organisation. A chart showing the temperature, at four-hour intervals, of a person suffering from influenza, is a rudimentary form of an information system, for the doctor attending on the patient. A more complete information system might involve periodic checks on the pulse rate, blood test, a urine test, an X-ray and so on. Based on such reports, the doctor would assess the progress of his patient and initiate corrective action where and when necessary.

An information system in a manufacturing organisation functions on almost identical lines. Depending on the size of the organisation, an information system could be fairly complex and might involve computerisation. An example of a computerised information system is the Bank's information structure for SSI advances. However, what is relevant is the kind of information that is necessary at the managerial level in a small enterprise.

The purpose of the information system is three-fold :

(i) information,

(ii) comparison (with pre-determined norms), and

(iii) control.

A variety of indicators can be chosen for the purpose but the following would be adequate for a small scale unit :

(i) Activity Level.

(ii) Profitability.

(iii) Cash Management and Liquidity Position.

Each of these indicators can be monitored by a simple chart. A few specimen charts are shown on the following pages. This basic model could be used with suitable alterations for almost any enterprise.

(i) Activity Level

Order Book and Production

Position of orders as on .... (month)

Product Group	Orders on hand at the beginning of the month A		Orders received during the month B		Despatches during the month C		Orders on hand at the end of the month (A+B—C)	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
1.								
2.								
3.								
4.								
TOTAL :								

(ii) Operating Statement

Monthly Operating Performance Statement   Month :

Revenue / Expenses	Product Group A			Product Group B			Job work			Total		
	This month	To date this year	Corresponding period last year	This month	To date this year	Corresponding period last year	This month	To date this year	Corresponding period last year	This month	To date this year	Corresponding period last year
1. Sales												
2. Excise Duty												
3. Net sales (1 - 2)												
4. Materials												
5. Labour												
6. Contribution [3 — (4+5)]												

Fixed Expenses	This month	To date this year	Corresponding period last year	Remarks
7. Factory overheads				
8. Administrative overheads				
9. Selling & Distribution Expenses				
10. Depreciation				
11. Interest				
12. Total Fixed Expenses (7+8+9+10+11)				
13. Change in finished goods & work-in-process inventory				
14. Net Operating Profit [(6 — 12) + 13]				

Notes :

The numbers below refer to the items :

4. Materials include cost of raw materials, sub-contracting and packing materials directly attributable to products.
7. Factory overheads consist of salaries of supervisory staff, power, fuel, consumable stores and factory administrative expenses.
8. Administrative overheads refer to office and administration expenses like salaries of office staff, stationery, postage, telephone, etc.
9. Selling and distribution expenses include salaries of sales staff, expenses on advertising, sales promotion, commission, discount and freight outwards.

(iii) Cash Management

Statement for the month of ....

	End of this month		End of last month		Last Financial Year		Remarks
	Value in Rs.	% of the month's sales	Value in Rs.	% of last month's sales	Value in Rs.	% of the sales	
CURRENT ASSETS							
1. Cash							
2. Sundry Debtors*							
3. Total inventory of which							
(i) Raw materials							
(ii) Stock-in-process							
(iii) Finished goods							
4. Other Current Assets (loans, advances, etc.)							
5. Total Current Assets (1 + 2 + 3 + 4)							
CURRENT LIABILITIES							
6. Sundry Creditors*							
7. Bank Borrowings (for working capital only)							
8. Other Current Liabilities (Statutory liabilities, advance received, etc.)							
9. Total Current Liabilities (6 + 7 + 8)							
10. Net Working Capital (5 — 9)							

See next page separate statement for age-wise break-up.

(iii) Cash Management (Contd.)

Age-wise Break-up of Sundry Debtors and Sundry Creditors

	1. Total		2. 0-90 days		3. 90-180 days		4. More than 180 days	
	End of this month	End of last month	End of this month	End of last month	End of this month	End of last month	End of this month	End of last month
Sundry Debtors								
Sundry Creditors								
Statutory Liabilities								

EXHIBIT 5.12

[Vide Annexure X — Item (ii)]

Name of the Unit :

Date of commencement of nursing operations :

Date when normal operations are expected to be resumed :

Amount sanctioned : Rs.

	Budget	Actual	Deviation
Capital Expenditure			
Preliminary and Pre-Operative Expenses			
Working Capital			

Release of Funds on Weekly Basis

Budget for the month	Particulars — Week No.	1 Budget	1 Actual	2 Budget	2 Actual	3 Budget	3 Actual
	1. Amount drawn upto the commencement of this week						
	(i) Capital Expenditure						
	(ii) Working Capital						
	2. Amounts drawn this week						
	(i) Capital Expenditure						
	(a) Building						
	(b) Plant & Machinery						
	(c) Others						
	(ii) Working Capital						
	(a) Purchase of Raw Materials						
	(b) Auxiliaries						
	(c) Sub-contracting						
	(iii) Overheads						
	(a) Salaries						
	(b) Wages						
	(c) Administration						
	(d) Selling						
	(e) Freight outwards						
	(f) Others						
	(iv) Advances						
	TOTAL	....	....	....	....		

NOTE : When a nursing programme is undertaken, the unit should give the position of drawings every week under each major head of account. The subsidiary statement a specimen of which given in the following page will give a detailed list of each drawing by cheques. This can be used as a check list for ensuring that the unit draws funds according to the budget fixed prior to undertaking the nursing programme with changes agreed from time to time.

Statement of Weekly Drawings

Name of Unit : Week No.

Date	Cheque No.	Drawn in favour of	Purpose	Amount Rs.	Total debits Rs.	Remarks

EXHIBIT 5.13

[(Vide Annexure X — Item (iv)]

Name of Unit :

MONTHLY REVIEW OF PERFORMANCE

I. ORDER BOOK

Month....................

Sr. No.	Product Group	Orders on hand		Orders received during the month		Total		Despatches		Balances on hand		Orders on hand expressed as........ months' production
		Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value	Qty.	Value	
1.												
2.												
3.												
4.												

II. INCOME STATEMENT

	For the month		Cumulative for the financial year	
	Budget	Actual	Budget	Actual
1. Sales realisation				
2. Less : Raw material consumption & labour				
3. Contribution				
4. Manufacturing overheads				
5. Selling and administrative overheads				
6. Interest on :				
i) Term loan				
ii) Working capital				
7. Provision for depreciation				
8. Profit before taxes and appropriations				

III. BANK OUTSTANDINGS

	Operating account	Term Loan	Others
Opening balance			
Receipts			
(i) Credits allowed			
(ii) Margins released			
Payments			
(i) Debits (Working capital)			
(ii) Margins held			
(iii) Repayments			
(iv) Others			
Balance at the end of the month			

IV. SUNDRY DEBTORS

	Total	Less than 90 day	More than 90 days	Value of bills held as security	Bills to be directly collected
(i) End of the month					
(ii) Beginning of the month					

V. SUNDRY CREDITORS

(i) For goods and services

(ii) Statutory

VI. STOCKS

	Total	Value of		
		Raw Materials	Work-in-Process	Finished goods awaiting despatch
(i) End of the month				
(ii) Beginning of the month				

Name of Unit :

Position of bank outstandings as on .... (Weekly)

Account (facility)	Limit	Total Outstandings	Interest applied	Bills	Value of Security		Drawing Power	Remarks
					Stock	Total		
Operating account								
Term Loan								
Others								

In this format, the bank outstandings under each category of account will be shown. This will help the bank and the borrower in taking timely corrective action. This format has been designed to give a comprehensive picture on the monthly performance of the unit as reflected in the following key indicators :

(i) Market

(ii) Profitability of its operations

(iii) Movement of bank outstandings.

The position of sundry debtors, creditors and value of stocks held by the unit will also be indicated in this return. At review meetings held every month, the unit should be asked to provide all information on this format.

ANNEXURE - XI

Progress Report for the month ....

1. Name of the industrial unit and location :

2. Date of approval of Rehabilitation Scheme :

3. Institution/bank involved in the rehabilitation programme :

   (i) Raw materials purchased during the month

   (ii) Goods manufactured during the month

   (iii) Goods sold and despatched during the month

   (iv) Order booked for **next three** months

   (v) Goods returned/rejected during the month

   (vi) Statement of monthly sundry creditors/ sundry debtors

   (vii) Electricity consumed during the month

   (viii) Age of the inventory :

   (a) more than six months

   (b) less than six months

   (ix) Sundry debtors :

   (a) more than six months

   (b) less than six months

ANNEXURE - XII

Statement of position as at the month/quarter/half year ending

____

1. Name of the unit and location :

2. Date of approval of rehabilitation scheme

3. Institution/Bank involved in the rehabilitation programme :

As at last month		**As at last month**	
Capital	Rs.	Fixed assets	Rs.
Sundry creditors**	Rs.	Raw materials	Rs.
Tax/statutory liability**	Rs.	Stocks in process	Rs.
		Finished products	Rs.
Dues to banks/ other institutions	Rs.	Bills receivable**	Rs.
Net profit*	Rs.	Net loss*	Rs.

* This will be furnished at the sixth month and twelth month; and is only a rough estimate.

** Itemised schedules to be attached only in half yearly/yearly statements.

ERRATA

Page No.	Para No.	Line No.	Correction
X	–	1	Read 'could' for 'coula'
XV	(xiii)	4	Read 'Level' for 'Level'
1	* mark	1	Read 'normally' for 'rormally'
1	@ mark	4	Read 'preservation' for 'preservati n'
2	–	1	Read 'faci-' for 'taci-'
19	–	10	Read 'nursed' for 'nursea'
22	(b)	8	After the word 'agencies' insert the word 'concerned'
26	II (i)	Caption	Read 'Soft' for 'Sofe'
29	–	21	Read 'the' for 'tha'
29	–	27	Read 'capacity' for 'capicity'
56	Item 3 (iii) of the foot note		Read 'in' for 'n'
86	Item 10 (Table)		Read 'Security' for 'Seurity'
108	IV SUNDRY DEBTORS		Read 'days' for 'day' in the second column of the table