REPORT OF THE COMMITTEE
ON
REHABILITATION OF
SICK SMALL SCALE INDUSTRIAL UNITS

RESERVE BANK OF INDIA
RURAL PLANNING AND CREDIT DEPARTMENT
CENTRAL OFFICE
BOMBAY 400 023
1986

Bombay
October 31, 1986

The Deputy Governor
Reserve Bank of India
Central Office
Bombay

Dear Sir

Committee on Rehabilitation of Sick Small Scale Industrial Units

I have pleasure in submitting herewith the report of the Committee on Rehabilitation of Sick Small Scale Industrial Units. The Committee is grateful to the Reserve Bank of India for the opportunity given to it to examine the question of rehabilitation of sick units in the small scale sector and suggest norms for revival of such units belonging to an area which plays a vital role in the economic growth of the country.

Yours faithfully

A. Hasib

(A. Hasib)

REPORT OF THE COMMITTEE

ON

REHABILITATION OF SICK SMALL SCALE INDUSTRIAL UNITS

CONTENTS

CHAPTER 1

INTRODUCTORY

1.1 The small scale industry [SSI] has a crucial role in the economic growth of the country not only from the view point of production and export but also for providing gainful employment. The trends in the growth of the small scale industrial sector in terms of production, exports and employment as at the beginning and end of the Sixth Five Year Plan and the targets projected for the Seventh Five Year Plan are given in Table I.

Table I

Trends in Production, Exports and Employment in the Small Scale Industrial Sector

Item	April - March			
	1973 - 74	1979-80	1984-85	1989 - 90 [Targets for the 7th Plan]
1	2	3	4	5
Production [Rs. crores]	7200	21635	50520	80220
Exports [Rs. crores]	538	1050	2350	4140
Employment [Lakh persons]	39.65	67.00	90.00	119.00

Source : Seventh Five Year Plan 1985-90 Vol. II

Institutional credit to SSI Sector

1.2 The small scale industrial sector raises the term credit and working capital required by it from state level financial corporations, commercial banks, co-operative banks, urban [co-operative] banks and regional rural banks. The banking system provides mainly working capital and also term loans wherever feasible. The State Financial Corporations [SFCs] generally provide investment capital but also include sometimes working capital for the initial period as part of the package of term loan assistance. The State Small Industries Development Corporations [SSIDCs] at state level and National Small Industries Corporation [NSIC] at national level also provide various types of assistance to the small scale industrial sector which include, among others, lease/sale of work sheds on liberal terms, supply of equipment and machinery on easy instalment credit basis, supply of essential inputs at reasonable prices, purchase of output for domestic sale and export, provision of extension services, linkages and infrastructural facilities, technical support in preparation and implementation of projects and training in the crucial areas of financial accounting, production, quality control and marketing. The Small Industries Service Institutes [SISIs] and their branch network provide technical support in preparation and implementation of projects and also train the operating staff in production management and quality control. The Industrial Development Bank of India [IDBI] provides refinance facilities to banks and state level financial corporations for financing the small scale industrial sector. National Bank for Agriculture and Rural Development [NABARD] provides refinance assistance to co-operative banks, commercial banks and regional rural banks for extending term loan assistance to artisans, cottage and village industries and tiny sector units in rural areas. The refinance schemes of IDBI and Industrial Reconstruction Bank of India [IRBI] for rehabilitation of sick SSI units cover rehabilitation assistance for margin money, working capital term loans, payment of statutory liabilities and pressing creditors, fresh capital expenditure required, cash loss that may be incurred in the implementation of nursing programme etc. Also, IDBI and Industrial Finance Corporation of India [IFCI] have schemes for providing payment of professional charges of state level technical consultancy organisations or approved consultants who may be engaged by banks and state financial corporations for formulation of rehabilitation packages. The State Governments/ Union Territory Administrations are also implementing margin money schemes for revival of sick small scale units, which can supplement the rehabilitation assistance given by commercial banks/financial institutions and other related departments/agencies of Government. The flow of credit from scheduled commercial banks and state financial corporations to SSI units for the years 1974, 1980 and 1985 is shown in Table II.

Table II

Institutional Credit to Small Scale Industries [Rs. crores]

	Item	1974	1980	1985
[a]	Scheduled Commerical Banks [Outstanding credit as on last Friday of December]	1017	3136	7208*
[b]	State Financial Corporations ** [Outstanding as at end-March]	219	793	2144

Source for item [b] - IDBI reports

* This figure pertains to end-June, 1985.

** Data relate to total assistance from SFCs which mostly goes to SSI sector.

1.3 Credit to SSI sector is provided at concessional interest rates. The current rates of interest as applicable to small scale industry are as under :

Commercial banks	Rate of interest % per annum
Composite loans upto Rs.25,000	
[a] Backward areas	10.0
[b] Other areas	12.0
Short-term advances	
[a] Upto and inclusive of Rs. 2 lakhs	Not exceeding 14.0
[b] Over Rs. 2 lakhs and upto Rs. 25 lakhs	Not exceeding 16.5
[c] Above Rs. 25 lakhs	Not exceeding 17.5
Term loans of not less than 3 years	
[a] Backward areas	12.5
[b] Other areas	13.5

Interest rates to ultimate borrowers under IDBI's Refinance Schemes

[a] Small Units	
i] in backward areas	12.5
ii] in non-backward areas	13.5

[b]	Other new units in specified backward areas	12.5
[c]	Modernisation assistance [all units]	11.5
[d]	Rehabilitation assistance [Small units]	10.0
[e]	Composite loans upto Rs. 25,000/- per unit to artisans and tiny units	
	i] in backward areas	10.0
	ii] in non-backward areas	12.0
[f]	Loans upto to Rs.25,000/- to units set up by SC/ST entrepreneurs and physically handicapped persons	10.0

1.4 While small scale industry has shown impressive growth, a disquieting feature of the situation is the growing sickness in this sector. This is part of a phenomenon which is afflicting the whole industrial economy of the country, although there are some special characteristics of sickness in small units.

Industrial Sickness

1.5 Currently a unit is considered 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]. The following table shows the growth of sickeness in industrial sector during the period 1982 to 1985.

Table III

Growth of Industrial Sickness

Year ended December	No. of Sick Units			Bank credit outstanding against sick units					
				Amount [Rs. crores]			As a proportion of total outstanding bank credit (%)		
	Large and Medium	SSI	Total	Large and Medium	SSI	Total	Large and Medium	SSI	Total
1982	1622	58551	60173	2016.67	568.66	2585.33	6.2	1.7	7.9
1983	1747	78363	80110	2372.30	728.99	3101.29	6.0	1.9	7.9
1984	1832	91450	93282	2758.70	879.69	3638.39	5.9	1.9	7.8
1985 [June]	1778	97890	99668	2850.52	954.65	3805.17	5.8	1.9	7.7

It will be seen that the increase in outstanding bank credit to sick SSI units between December 1982 and June 1985 has been of the order of **68%** as compared to **41%** in the case of medium and large industries. As a proportion of outstanding credit to the SSI Sector, credit to sick SSI units constituted 13.2% as at the end of June 1985. The need for arresting sickness and assisting those units which are potentially viable has been well recognised. Rehabilitation of sick units calls for coordinated action by the industry, financing institutions and various other agencies connected with the small scale industries sector. In particular, the need for coordination between banks and term-lending institutions in tackling the problem of sickness in small industry on the financial front has been felt keenly for some time. Other equally important areas of concern are their technological upgradation, efficient marketing strategy, strengthening quality control, improved managerial competence, proper financial management, assured supply of raw materials, diversification, and ensuring prompt payment from their customers for supplies made. Another aspect of the problem is that a large number of sick small units have been found to be non-viable. Thus, as on 30 June 1985, out of 97890 sick SSI units with outstanding bank credit of Rs.954.65 crores, as many as 79378 units [81% of total] with outstandings of Rs.623.08 crores [65.3% of total] were found non-viable.

Genesis and composition of the Committee

1.6 Keeping this emergent need in view, the Reserve Bank of India convened a meeting of the chief executives of a number of State Financial Corporations, chairmen of some commercial banks, representatives of the all-India financial institutions and the Union Ministry of Industry, on 21 February, 1986 to discuss problems of coordination between financial institutions and commercial banks in providing financial assistance to small scale industrial units and to consider measures for rehabilitating sick units in this sector. The consensus at the meeting was that a committee should be set up to consider various aspects of rehabilitation of sick small scale industrial units and make suitable recommendations. Accordingly, the Reserve Bank of India constituted a committee as under :

1]	Shri A. Hasib Executive Director Reserve Bank of India Bombay.	-	Chairman
2]	Dr. S. A. Dave Executive Director Industrial Development Bank of India Bombay.	-	Member
3]	Shri N. N. Bhattacharyya General Manager Industrial Reconstruction Bank of India Western Regional Office Bombay.	-	Member
4]	Shri B. D. Dikshit Deputy Managing Director [Development and Planning] State Bank of India Bombay.	-	Member
5]	Dr. S. M. Pathak General Manager Bank of India Bombay.	-	Member
6]	Dr. A. M. Khan Director [Economic Investigation] Office of the Development Commissioner [SSI] Ministry of Industry and Company Affairs Government of India New Delhi.	-	Member
7]	Shri Sushil Kumar Principal Secretary to Government of Andhra Pradesh Industries and Commerce Department Hyderabad.	-	Member
8]	Shri Mahesh Prasad Principal Secretary to Government of Uttar Pradesh Industries & Export Promotion Departments Lucknow.	-	Member

9]	Shri S. P. Upasani Managing Director Maharashtra State Financial Corporation Bombay.	- Member
10]	Shri O. Ramachandra Rao Managing Director Tamil Nadu Industrial Investment Corporation Ltd. Madras.	- Member
11]	Shri R. P. Satpute Chief Officer Rural Planning and Credit Department Reserve Bank of India Bombay.	- Member-Secretar

Terms of reference

1.7 The terms of reference of the Committee were as under :

i. Definition of sick SSI units;

ii. Identification of incipient sickness in SSI units;

iii. Establishment of a suitable machinery for identification of sickness, preparation of rehabilitation packages in the case of potentially viable units and follow-up and monitoring of their implementation; and

iv. Formulation of parameters for provision of reliefs/concessions by commercial banks, State Financial Corporations, State Governments and other agencies under rehabilitation packages evolved for sick SSI units considered as potentially viable.

1.8 The Committee would like to observe that under its terms of reference its task was limited to making recommendations on the financial aspects of rehabilitation of sick SSI units and the mechanism for coordination of measures for revival besides examining the adequacy of the existing definition of sickness, keeping in view the special features of SSI units. It was not expected to address itself to the entire area of sickness in SSI units, for instance, causes of sickness, legislative measures necessary to assist/revive sick SSI units, non-financial support needed from Government and promotional agencies set up for the SSI sector. The Committee recognises the limitations of its work. Perhaps, the Government of India or the Reserve Bank of India would like to make a detailed study covering all aspects of sickness in the SSI Sector.

Meetings

1.9 The Committee met on 12 March, 24 March and 25 April 1986. Shri Ganga Ram, General Manager, Industrial Development Bank of India was nominated as alternate member by that institution and Shri A. B. Chakravarty, Chief Officer, Small Industries and Small Business Banking, State Bank of India, attended two meetings on behalf of Shri Dikshit.

Acknowledgements

1.10 The Committee had the benefit of the views of Shri K. S. Joshi, Joint Chief Officer of the Industrial and Export Credit Department [IECD] and Shri M. S. Pai, Joint Chief Officer of the Rural Planning and Credit Department [RPCD] of the Reserve Bank. The Committee is also grateful to the secretarial assistance provided by the Rural Planning and Credit Department. Special thanks are due to Shri Satpute and his colleagues for organising the meetings of the Committee and preparing the initial draft of the report. The Committee wishes to record its deep appreciation of the contribution made by Kum. V. Visvanathan and Shri P. K. Parthasarathy, Chief Officers of IECD and RPCD respectively who made very useful suggestions and gave valuable assistance in finalising the report of the Committee.

CHAPTER 2

APPROACH TO THE PROBLEM

2.1 The question of sickness amongst industrial units including small units has been examined from time to time and recommendations made for their rehabilitation. We have examined the available data and reports of various Committees dealing with the subject. While recognising that there are some common features of sickness in large, medium and small industrial units, we felt that the fact that even healthy small scale units are generally weak relatively to large units, has to be given due importance in approaching the problem of sickness in these units. Thus, a large unit is able to absorb shocks of adverse changes in market conditions, or blocking of funds due to unpaid claims, to a much larger degree than a small unit. A large unit is also in a better position to realise its bills from its customers expeditiously. Large units also have the necessary expertise to maintain proper books of accounts and compile financial data which enable them to have easier access to credit from banks and term-lending institutions than the small scale units which do not always find it easy to prepare the required accounts.

2.2 A SSI unit has been defined as one with an investment [original cost] in plant and machinery upto Rs.35 lakhs* and in the case of ancillary units upto Rs. 45 lakhs* provided that no such unit is a subsidiary in any way of any other undertaking. The SSI sector includes [a] artisans, village and cottage industrial units, [b] tiny sector units and [c] small scale service units. Artisans and village and cottage industrial units are grouped as decentralised sector and include artisans [irrespective of location] and small industrial activities [viz. manufacturing, processing, preservation and servicing] in villages and small towns with population not exceeding 50,000 involving utilisation of locally available natural resources and/or human skills where individual credit requirements do not exceed Rs.25,000/-. Tiny sector units are those which are located in villages and towns having population not exceeding 50,000 with original cost of investment in equipment and machinery not exceeding Rupees two lakhs. Small Scale Service Units are those which cover personal or household services such as laundry, xeroxing and repair and main-

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* These cut off points are effective from 18 March 1985. The earlier cut-off points were Rs.20 lakhs [Rs.25 lakhs for ancillaries] with effect from February 1981.

tenance of consumer durables, etc., with investment in plant and machinery not exceeding Rupees two lakhs and located in rural areas and towns with a population of five lakhs or less.

2.3 The Committee felt that the approach to industrial sickness had also to take note of the distinction between the small units and the tiny units and further between the tiny units and the decentralised sector because the capacity to resist sickness generally declines as the scale of operations becomes smaller. A Study Team appointed by the State Bank of India [SBI] in 1975 had also pointed out that basic shortcomings such as inadequate equity, limited resources, lack of proper financial management, and planned and organised approach made small units more prone to sickness.

2.4 Recognising the above characteristics of the small scale sector, the Committee looked at the parameters prepared and circulated by the Reserve Bank of India in November 1985 for provision of reliefs and concessions by banks and financial institutions under rehabilitation packages for large and medium sick industrial units considered as potentially viable. The Committee felt that in the case of SSI units the emphasis of rehabilitation package should be on intensive relief measures and their speedy application rather than giving a longer time to the units for rehabilitation. A small industrial unit and more particularly a unit in the tiny/decentralised sector with its limited market and financial strength is more vulnerable to market changes. It is, therefore, necessary to ensure that it is put on its feet in a short period and made viable. A package with a long time span may be inappropriate for a small unit. In the case of tiny/decentralised sector units, the period within which a rehabilitation package has to be completed should be even shorter but the extent of concessions in relation to credit as also other reliefs required for rehabilitation will be greater than in the case of other small scale units. Also, commercial banks and the financial institutions may have to take greater responsibility in the case of such units and assist them even in areas which are generally considered to be outside the purview of their normal operations. A tiny/decentralised sector unit is likely to have even less influence or clout than a bigger SSI unit for realising its dues in time from a larger unit or Government departments. Likewise, such a unit may find it more difficult to persuade the authorities to postpone the recovery of overdues of sales-tax or electricity bills during rehabilitation. In such cases, positive support of commercial banks to tiny units will be helpful.

2.5 Another aspect of the problem of industrial sickness in SSI units which, the Committee felt, needed separate and specific attention was incipient sickness. The Committee felt that it was of utmost importance that the onset of sickness was arrested and controlled at the commencement itself by full collaboration and understanding between the banker or the financial institution [generally state level institutions] and the borrower rather than allowed to develop and become chronic. The Committee has, therefore, placed special emphasis on action to be taken to prevent sickness and the measures to be adopted to remedy it at the initial stage.

2.6 The Committee is of the firm view that the potentiality of the sick unit to become viable has to be decided by the concerned bank where it is the sole financing agency, and where a financial institution is also involved, by both of them, and that the rehabilitation package has also to be drawn up by the financing agency/agencies. However, the Committee took note of the fact that nearly 80 per cent of the sick SSI units are found to be in the tiny/decentralised sector and more so in the rural and semi-urban areas throughout the country. These units had to deal with many agencies like the bank or the financial institution, the concerned departments of the State Government like Industries Department, Revenue Department, Sales Tax authorities, Electricity Board etc. The Committee, therefore, felt that a definite mechanism had to be adopted for securing the consent of all concerned to the rehabilitation package and monitoring its implementation at one point. The Committee further came to the conclusion after deliberating on various alternatives available, that the role of securing the consent of participating agencies and monitoring the progress had to be carried out by a suitable representative body at the district level. The credit institutions, Government departments and other agencies concerned would have to be represented on this body. The Committee felt that officers representing concerned agencies on this body should be delegated adequate powers to commit the institution/agency for taking up its share in the rehabilitation package.

CHAPTER 3

IDENTIFICATION OF INCIPIENT SICKNESS, DEFINITION OF SICK SSI UNIT AND VIABILITY CONCEPT

Identification of incipient sickness in SSI units

3.1 As pointed out in the earlier Chapter, the Committee considers it to be of the utmost importance that measures are taken to ensure that sickness is arrested at its incipient stage. The Committee, therefore, recommends that banks or financial institutions should periodically review accounts of borrowers to identify those units which are showing signs of sickness so that corrective action is taken without loss of time. Banks should have adequate organisational arrangements at the branch level for early detection of sickness through the warning signals that become available from time to time. Sickness in a sizeable number of units can be prevented if the warning signals are taken note of. Thus, scrutiny of borrowal accounts and other related records e.g., periodical financial data, stock statements, and reports on inspection of factory premises and godowns, do throw up signals of incipient sickness. These may be illustrated as under :

(a) Continuous irregularities in cash credit/overdraft accounts, such as inability to maintain stipulated margin on continuous basis or drawings frequently exceeding sanctioned limits; periodical interest debited remaining unrealised;

(b) Outstanding balance in cash credit account remaining continuously at the maximum;

(c) Failure to make timely payment of instalments of principal and interest on term loans;

(d) Complaints from suppliers of raw materials, water, power, etc., about non-payment of bills;

(e) Non-submission or undue delay in submission or submission of incorrect stock statements and other control statements;

(f) Attempts to divert sale proceeds through accounts with other banks;

(g) Downward trend in credit summations;

(h) Frequent return of cheques or bills;

(i) Steep decline in production figures;

(j) Downward trends in sales and fall in profits;

(k) Rising level of inventories which may include large proportion of slow or non-moving items;

(l) Larger and longer outstandings in bill accounts;

(m) Longer period of credit allowed on sale documents negotiated through the bank and frequent return by the customers of the same as also allowing large discount on sales;

(n) Failure to pay statutory liabilities;

(o) Utilisation of funds for purposes other than running the units.

3.2 Signals of sickness will also be known from available audited accounts and during periodical visits to the place of the borrower's activity. All, or any of them, should put the bank/financial institution on guard about the onset of sickness for prompt remedial action, beginning with a dialogue with the borrower to consider what steps can be initiated to eliminate factors causing sickness. The Committee feels that the most effective way of identifying incipient sickness is to keep in touch with borrowers in order to find out the state of health of the units. Incipient sickness can be detected at an early stage if mutual confidence is built up and developed between the borrower and the bank/financial institution so that a borrower will not hesitate in disclosing to the bank even minor difficulties that he may be facing in running the unit. For it is not unlikely that in many cases incipient sickness may get reflected in bank accounts later than the start of sickness. The bank should also supply to the borrower such information or advice as would help him to take care of the health of his unit.

3.3 What has been stated above applies with greater force to the tiny and decentralised sector units which in most cases do not maintain regular and adequate accounts. Unless mutual confidence is developed, these units may attempt to conceal sickness from banks by securing loans from informal sources and thus get into further difficulties. In their cases, a little help at the right time may arrest deterioration at an early stage.

3.4 The Committee is, therefore, of the view that the branch manager should be primarily responsible for picking up signals of incipient sickness. He should provide such financial assistance as is within his powers depending on established need. The financial assistance may include a reasonable extra accommodation, re-scheduling of loan instalments, extension of moratorium period non-compounding of interest, prolongation of period of retention of bills, etc. It should also be incumbent on the bank to send a report on the financial position of the unit and the apparent causes of incipient sickness promptly to the financial institution which had extended term loan assistance to the unit so that it can also look into the problems and initiate remedial measures. Wherever reliefs required are beyond the powers of the branch manager, he should quickly refer the matter to the controlling office for necessary sanction. Where the difficulties are non-financial and require assistance from outside agencies like Government departments or undertakings, Electricity Board, etc., he should help the unit in getting its difficulties sorted out.

Definition of sick SSI unit

3.5 The Committee considered various definitions of sick units as given by RBI, IDBI, SBI Study Team 1975, the Tiwari Committee*, the Study Group on Soft Loan Assistance Fund**, the Standing Committee of the Small Scale Industries Board and the Government of India in relation to margin money scheme for revival of sick SSI units. The Committee also took note of the definition of sick units as given in the Sick Industrial Companies (Special Provisions) Act, 1985 which describes a sick unit as an industrial company (being a company registered for not less than seven years) which had at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year. The Committee also noted that SSI units have been kept outside the purview of the Act by a conscious decision of Government. The Committee felt that since this definition envisages 100 per cent erosion of net worth, the effectiveness of a rehabilitation package in the case of a SSI unit would be lost if the revival measures are initiated only after the net worth of the unit had been completely eroded. The Committee is therefore of the view that for classifying a SSI unit as sick, which needs reliefs and assistance from the banks, financial institutions and others, it would not be appropriate to adopt the definition of sick units as given in the Act. In the circumstances, for the purpose of rehabilitation package for sick SSI units, the Committee would prefer to define sickness on a slightly different basis.

3.6 The majority of the definitions suggested by various Committees for considering a unit as sick for the purpose of becoming eligible for rehabilitation assistance are based on (a) the unit incurring cash losses on a continuing basis and (b) erosion in its net worth on account of such losses. Other

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* The Committee 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 (Chairman: Shri T. Tiwari)

** 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. (Chairman: Dr. P.D. Ojha) criteria included in various definitions are continuous defaults in meeting instalments of interest or principal, persistent irregularities in operations on credit limits, adverse current ratio, etc. The Committee accepted the view that since tiny sector units and cottage and village industries do not maintain proper books of accounts it would not always be possible to work out clearly cash losses or erosion in net worth and in their cases an alternative yardstick such as defaults in meeting instalments of interest and principal on term loans sanctioned by banks/financial institutions would have to be adopted.

3.7 A view was also expressed before the Committee that as the definition of SSI unit is based on the original cost of plant and machinery installed, cash losses incurred may be related to this value instead of to the net worth of the unit. However, the Committee felt that this criterion would not be fair to SSI units as most of them have a low capital base and the criterion of losses equalling say 50 per cent of value of plant and machinery might mean classification of the unit as sick only after the net worth is wiped out many times over, by which time the unit might have become too sick to be revived, if it continued to exist till then.

3.8 Considering various aspects, the Committee is of the view that the definition of sick unit as given by the Study Group on Soft Loan Assistance Fund with suitable modification for covering tiny units may be adopted. A sick SSI unit may thus be defined as one which has (a) incurred cash loss in the previous accounting year and is likely to continue to incur cash loss in the current accounting year and has suffered an erosion on account of cumulative cash losses, to the extent of 50 per cent or more of net worth and/or (b) continuously defaulted in meeting four consecutive quarterly instalments of interest or two half-yearly instalments of principal on term loans and there are persistent irregularities in the operation of its credit limits with the bank. While both (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either alternative (a) or (b) is satisfied in the case of tiny and decentralised sector units.

Viability

3.9 The Tiwari Committee has emphasised that viability on a commercial basis should be the main criterion for undertaking the rehabilitation of a sick industrial unit and has evolved a comprehensive definition of viability. The Committee is of the view that this proposition is equally valid for the rehabilitation of a sick SSI unit. We have slightly modified the definition to suit the special features of SSI units. Viability of a sick SSI unit may be defined as follows:-

> "A unit may be regarded as viable if it would be in a position, after implementing a relief package spread over a period not exceeding 5 years from the commencement of the package, from banks, financial institutions, Govt. [Central/State] and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured debts should not exceed 7 years from the date of implementation of the package".

3.10 In the case of tiny units, viability has to be attained within a shorter time frame because these units have to be put back on their feet much sooner if they have to gain sufficient strength. A tiny/decentralised sector unit which cannot become viable within two years is most unlikely to become healthy. Hence in these cases an intensive relief programme should be chalked out covering a period of two years and the repayment period may not exceed three years.

3.11 It is because of the inherently poor financial strength of small units that a much more intensive programme of nursing them with larger concessions than what are ordinarily necessary for the large and medium units, may have to be undertaken in order to achieve results within the shortest possible time. In most cases, long-drawn packages of rehabilitation may neither be necessary nor will they serve the interest of small industrial units. It is again for this reason that slightly shorter periods of concession/ repayment of debts have to be fixed compared to large scale units where the relief package can be spread over a maximum period of 7 years and the maximum repayment period for restructured debts is prescribed as 10 years from the date of implementation of the package.

3.12 The Committee is of the view that it should be left to the judgement of credit institutions to decide whether or not a sick SSI unit will become viable according to the above criteria. Information regarding non-viable units should be separately brought to the notice of the District Level Forum referred to in Paragraph 4.19.

3.13 Since the rehabilitation programme has to depend on the assessment of viability of the unit, it is necessary to carry out a viability study quickly to determine the potential for rehabilitation. This study has to be undertaken or arranged for by the bank or the financial institution depending on which agency is involved or by both of them jointly, with the institution which has a major share in financing taking the lead. The study should be carried out and decision taken on rehabilitation, as far as possible within a period of 3 months from the date of receipt of complete information on relevant aspects from the management of the sick unit.

Training programmes

3.14 A predominantly large number of SSI units are non-corporate entities managed by proprietary concerns or partnership firms. With a view to improving the managerial competence of entrepreneurs in small scale industrial sector, the State Government agencies, banks and financial institutions should jointly or otherwise hold, on a large scale, short-duration, intensive training programmes for the entrepreneurs on important aspects of management - financial accounting, production, marketing, export, etc. The Committee understands that some banks and IDBI have, of their own, organised training programmes for small scale entrepreneurs. It will be useful in these programmes to focus attention on causes of sickness, measures to prevent sickness and need to take banks and other financing institutions into full confidence. The banks and financial institutions may also prescribe a simple common format for obtaining the necessary operational data (e.g. production, sales, inventory position, receivables, cash flow, etc.) of the sick industrial unit periodically (say quarterly) and also prescribe as one of the terms and conditions of financing that the information in the prescribed format should be supplied by the sick unit regularly to the concerned banks and financial institutions. The periodical returns should be analysed on the basis of the operations in the working capital/term loan accounts, inspection of units, searching dialogue with the entrepreneurs, etc. The training programmes referred to above will considerably help in the flow of essential information from borrowers to financing institutions.

CHAPTER 4

PARAMETERS FOR PROVISION OF RELIEFS/CONCESSIONS BY FINANCIAL INSTITUTIONS/BANKS/GOVERNMENT DEPARTMENTS/OTHER AGENCIES UNDER REHABILITATION PACKAGES

4.1 According to its terms of reference, the Committee is required to formulate parameters for provision of reliefs and concessions by commercial banks, State Financial Corporations/State Industrial Development Corporations, State Governments and other agencies for rehabilitation of sick SSI units. The Committee has looked into the parameters finalised by the Reserve Bank of India in November 1985 for rehabilitating sick industrial units. The Committee also looked into the recommendations made earlier by different Committees for assisting sick small scale industrial units. As explained in the previous chapter the Committee was of the definite view that only units adjudged as potentially viable by either the concerned financial institution or the commercial bank or both should be considered for rehabilitation and given need-based reliefs. The rehabilitation package, according to the Committee, has to provide for deferment of existing dues and making available fresh credit to the extent necessary besides allowing concessions in interest. Accordingly, the Committee recommends the following parameters for rehabilitating sick SSI units considered as potentially viable by the financing bank or the State level financial institutions.

Interest dues

4.2 The foremost outstanding liability of any unit is unpaid interest in respect of borrowings under cash credit and term loan. The unpaid interest amount if it has been added on to the principal amount has to be segregated from the total liability under cash credit and term loan and funded separately. If it is calculated and kept separately, the funding process will be easier. Reasonable time not exceeding three years should be provided for repayment of such funded interest. Banks and financial institutions should not charge interest on this amount and hence it should be ensured that the repayment of the funded interest gets precedence over, and is accordingly spread over a shorter duration than the period of repayment of funded dues under term loans, including working capital term loans.

4.3 The rate of interest on term loans extended by the banks and the term lending institutions may be reduced, where considered necessary, by not more than two per cent below the prevailing rates. However in the case of tiny units the rate may be reduced by not more than three per cent. But in no case the interest charged should be less than the rate of interest under Integrated Rural Development Programme (IRDP), which is intended for the weaker sections of the society. Actual concessions within the above parameters may be left to the discretion of the banks and the financial institutions. If any interest payable remains unadjusted such as interest charged between the date with reference to which rehabilitation package was prepared and the date from which it was actually implemented, the same shall also be funded, interest-free, with a suitable repayment period not exceeding three years.

Guarantee fee

4.4 The Committee recommends that the guarantee fee payable to Deposit Insurance and Credit Guarantee Corporation (DICGC) in respect of the guarantee cover for the advances to sick SSI units should be borne by the banks/financial institutions during the period of the rehabilitation programme.

Penalty and damages

4.5 If penal rates of interest or damages have been charged, it would be necessary to waive them, as a sick unit with an already unsatisfactory financial position will find it difficult to bear such charges. Such waiver may be granted from the accounting year of the unit in which it started incurring cash losses continuously.

Principal dues

4.6 After the unadjusted interest portion of the cash credit account is segregated, the balance representing principal dues may be treated as irregular to the extent it exceeds drawing power, with reference to the first date of the accounting year from which the unit started incurring cash losses continuously. This amount may be funded as working capital term loan (WCTL) with a repayment schedule not exceeding a maximum period of 5 years. The periodicity for recovery of instalment, whether quarterly or half yearly or annual, may be decided by the financial institution or the bank keeping in view the nature of the industry, its cash inflows, etc. Interest may be charged on this funded loan at 10 per cent per annum.

Financing of cash losses

4.7 Cash losses as reflected in the irregularity in the borrowal accounts of sick units would already have been financed by the bank/financial institutions, and to the extent that it is reflected as an irregularity in the cash credit account it would be funded into a WCTL as indicated above. However, it is not unlikely that cash losses may be incurred in the initial stages during the implementation of the nursing programme. Such losses should be funded by the bank or the financial institution, if only one of them is the financier. But if both are involved in the rehabilitation package the financial institution should finance such cash losses. Interest may be charged on the funded amount at the rate prescribed by IDBI under its scheme for rehabilitation assistance which includes such cash losses also.

Need-based working capital limits

4.8 Besides funding of existing irregularity in the accounts, need-based working capital limits should be sanctioned to enable the unit to carry on its operations with interst at the minimum of the band of the prescribed interest rates during the rehabilitation period.

Start-up expenses

Margin Money

4.9 There will be need to provide the unit under rehabilitation with funds as start-up expenses (including payment of pressing creditors) or margin money to give it strength to raise resources for carrying on operations. These funds will have to be in the form of long-term loans and hence should be provided by financial institutions like the SFC if they are already involved in financing the unit. But if a financial institution is not involved, the required funds for start-up expenses will have to be provided by the concerned bank, and the margin money may come from the IDBI under its refinance scheme for rehabilitation. Alternatively, where margin money schemes are operated by State Government they may provide the margin.

Contingency loan assistance

4.10 It is not unlikely that on account of cost and time overruns as also conservative estimation of rehabilitation assistance, the bank/financial institution may have to provide an additional amount upto 15 per cent of the total estimated cost of rehabilitation package as contingency loan assistance at concessional rate of interest equal to that to be charged on the regular working capital limit.

Statutory liabilities

4.11 Apart from dues payable to the financial institution or the bank there may be liabilities to the State Government or other agencies, such as arrears of sales tax, electricity charges, etc. and unless these payments are suitably deferred, the rehabilitation package may not be fruitful. Payment of these past dues may be permitted to be made over a period extending upto 5 years and no penalty should be recovered in respect of such deferred dues. The Committee, therefore, strongly recommends that the Union Ministry of Industry should prevail on the State Governments and the Union Home Ministry (in respect of Union Territories) to accept this recommendation immediately and, if necessary, amend existing legal provisions, instructions etc. Further, adequate powers should be delegated to line officials at the district level to sanction deferment of past as also current dues on the lines to be indicated in the rehabilitation package formulated by the bank or the financial institution for nursing the sick unit. Similarly, powers should to be vested in the officers at state level to sanction reliefs where they become necessary in excess of the powers delegated to the district officers. The Union Ministry of Industry should similarly advise other Union Ministries like the Ministry of Finance, the Ministry of Labour etc. to agree to defer recovery of accumulated dues without penalties under Central Excise, ESIS, Provident Fund, etc. and to delegate suitable powers to district and state level officials to sanction reliefs. Penalties already imposed, if any, for non-payment of dues may be refunded to the unit or adjusted against subsequent payments falling due.

Consultancy services

4.12 For undertaking viability study and preparation of a report on rehabilitation of the unit, the bank as well as the financial institution may require the assistance of an outside consultant with suitable technical and financial specialisation for the type of unit to be rehabilitated and the type of industry involved. There is need to identify such consultants who will provide requisite assistance at affordable cost. The Committee was informed that the Technical Consultancy Organisations (TCOs) set up by IDBI and the Small Industries Service Institutes [SISIs] are equipped to render such assistance at economic rates. In addition, it may also be useful to draw up and maintain a list of suitable consultants at the district level also. The Committee recommends that IDBI may take the initiative in preparing and maintaining such a directory of industrial consultants for SSI units. In this connection, the Committee further recommends that IDBI should evolve a system of feedback from the banks and the financial institutions on the performance of the listed consultants with a view to reviewing their performance and taking appropriate decisions for their continuance in the directory.

Cost of consultancy services

4.13 The Committee was informed that IDBI subsidises the cost of rehabilitation plans and reports prepared by TCOs or SISIs upto 50 per cent of the professional charges subject to a maximum of Rs. 5,000/- per unit, and that the sharing is admissible irrespective of the acceptance of the recommendations for rehabilitation assistance. No subsidy is available in respect of reports of other agencies even if they are acceptable for consideration of refinance facilities. The Committee recommends that IDBI may consider paying the entire (100%) professional charges subject to a maximum of Rs. 5,000/-

per unit towards the cost of consultant's reports and also extend the benefit of subsidy to the reports prepared by consultants listed by banks, IDBI, IRBI and state level financial institutions, besides TCOs and SISIs.

Assistance from State Governments

4.14 The rehabilitation package prepared by a bank or the financial institution will necessarily take note of margin money available from the concerned State Government. With a view to ensuring that such assistance is sanctioned and released early, the Committee recommends that the State Governments should empower line officials at the district level to sanction and release requisite margin money assistance to sick SSI units as may be found necessary by the financial institution or the bank within the limits permissible for such assistance. The Committee further recommends that the Union Ministry of Industry may advise all the State Governments as well as the Union Home Ministry in respect of the Union Territories to facilitate easy sanction and release of margin money assistance to sick SSI units as quickly as possible and in any case not later than three months from the date from which the bank or the financial institution approaches the Government.

Promoters' contribution

4.15 Promoters' contribution should comprise fresh injection of funds as distinct from internal generation and proceeds from sale of assets already charged. In the case of tiny sector units with original cost of plant and machinery at Rs. 2 lakhs and less, the promoters should be required to bring in not less than five per cent of the total additional long-term requirements envisaged under the package. For instance, if the additional long-term requirements by way of start-up expenses and for meeting pressing creditors and statutory liabilities amount to Rs. 1 lakh and the margin at 20 per cent for additional working capital comes to, say, Rs. 0.50 lakh, the additional long-term requirements would aggregate Rs. 1.50 lakhs and the promoter would have to bring in Rs. 7,500 only (i.e. 5% of Rs. 1.50 lakhs) as his contribution. The balance of margin money has to be provided by the financing institution with assistance from the State Government, IDBI, IRBI etc. as recommended earlier. In other cases where the original cost of plant and machinery was more than Rs. 2 lakhs the promoters' contribution shall not be less than ten per cent of the additional long-term requirements, of which 50 per cent should be brought in by the promoter immediately and the balance within six months thereafter. Promoters' contribution should be interest-free. In the case of units in the decentralised sector promoters' contribution may not be insisted upon for rehabilitation.

Right to recompense

4.16 One of the State Financial Corporations had adopted the practice of quantifying the sacrifices agreed to be made in the process of revival of a sick SSI unit, and to recover the amount as the last instalment after all the other dues owed to it were paid off, with the proviso that this instalment would be waived by the institution on 'good behaviour' by the unit (i.e. based on its actual good performance). The Committee was informed that this practice has worked very satisfactorily. The Committee recommends that such a procedure may be considered for adoption by all banks and financial institutions.

Delegation of powers

4.17 The Committee was apprised of the delay, which was at times too long, in the implementation of agreed packages. One of the factors contributing to such delay was found to be the time taken for obtaining clearance to the reliefs and concessions and other commitments. As it is essential to accelerate the process of clearance, the banks and the financial institutions may delegate sufficient powers to senior officers at various levels such as district, divisional, regional, zonal and also at head office to sanction the bank's or the financial institution's commitment to its share in the rehabilitation package drawn up in conformity with the prescribed guidelines.

Reference to Reserve Bank

4.18 Where rehabilitation packages provide for concessions/reliefs in accordance with the above parameters, the Committee feels that banks need not obtain the approval of Reserve Bank for the same. However, in exceptional cases where a departure from these norms may be necessary, the prior approval of the Reserve Bank should be obtained for the variations.

Machinery for co-ordination etc.

4.19 If the agreed package involves action only by the concerned bank or financial institution, the package should be implemented without delay; where the package necessitates reliefs and concessions from other agencies as well, their consent will become necessary. Such co-ordination has to be usefully achieved at the district level since a large number of small units are situated in mofussil areas. The district level forum may include (i) Regional Manager or equivalent officer of the lead bank as Chairman, (ii) Regional Manager or equivalent officer of the State Financial Corporation, (iii) representative of concerned bank/s, (iv) a representative of SISI, (v) General Manager of District Industries Centre (DIC) and (vi) concerned officers of the State Government. The role of the forum will be to advise how and within which period the share of agencies and Government in the rehabilitation package finalised by the financing bank/institution can be met. The General Manager, DIC may be designated as the nodal agency for agencies other than the financing banks and institutions, to obtain the required concurrence within three months from the date from which he is approached by the financing institution with the package proposals. Financing institutions should be informed immediately after the concurrence has been obtained. This forum may also usefully monitor the implementation of the packages and consider cases where there is a difference of opinion among the promoter, the bank and financial institution in regard to viability of the unit or the package of reliefs/concessions. The forum will submit periodically reports through the Regional Manager of the lead bank to the District Consultative Committee. The forum should, however, function only in an advisory capacity, and the decision regarding the viability or otherwise of a unit and preparation of the rehabilitation package should be the responsibility, as hitherto, of the bank/financial institution.

CHAPTER 5

SUMMARY OF IMPORTANT RECOMMENDATIONS

5.1 While recognising that there are common features of sickness in large, medium and small industrial units, the relative weakness of SSI units to withstand difficulties has to be given due importance in approaching the problem of sickness in these units. Any approach to sickness in the SSI sector has also to take note of the distinction between the small units and the tiny units and further between tiny units and units in the decentralised sector (i.e. village and cottage industries in villages and small towns). (Paragraphs 2.1 & 2.3).

5.2 In the case of SSI units the emphasis should be on intensive character of relief measures in the package and its speedy application rather than on giving a longer time for rehabilitation. (Paragraph 2.4).

5.3 In order to ensure that sickness is arrested at the incipient stage, banks/financial institutions should periodically review the accounts of SSI borrowers to identify units which are becoming sick or are prone to sickness. (Paragraph 3.1).

5.4 The most effective way of identifying incipient sickness is to keep in touch with borrowers and build up mutual confidence between the borrower and the bank/financial institution. (Paragraph 3.2).

5.5 The branch manager should be primarily responsible for picking up signals of incipient sickness and should provide such financial assistance as is within his powers depending on established need. Whenever reliefs required are beyond the powers of the branch manager, he should quickly refer the matter to the controlling office for necessary sanction. Where the difficulties are non-financial and require assistance from outside agencies like Government departments or undertakings, Electricity Board etc., he should help the unit in getting its difficulties sorted out. (Paragraph 3.4).

5.6 A sick SSI unit may be defined as one which has (a) incurred cash loss in the previous accounting year and is likely to continue to incur .cash loss in the current accounting year and has suffered an erosion of 50% or more in net worth on account of cumulative cash losses, and/or (b) continuously defaulted in meeting four quarterly instalments of interest or two half-yearly instalments of principal on term loans and there are persistent irregularities in the operation of credit limits with the bank. While both (a) and (b) should be satisfied in the case of larger SSI units, it would suffice if either alternative (a) or (b) is satisfied in the case of tiny and decentralised sector units. (Paragraph 3.8).

5.7 Viability on a commercial basis as defined below should be the main criterion for undertaking rehabilitation of a sick SSI unit.

"A unit may be regarded as viable if it would be in a position, after implementing a relief package spread over a period not exceeding 5 years from the commencement of the package, from banks, financial institutions, Government (Central/State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period for restructured debts should not exceed 7 years from the date of implementation of the package". (Paragraph 3.9).

5.8 In the case of tiny/decentralised sector units, an intensive relief programme should be chalked out covering a period of 2 years and the repayment period may not exceed 3 years. [Paragraph 3.10].

5.9 It should be left to the judgement of credit institutions to decide whether or not a sick SSI unit is potentially viable according to the above criteria. (Paragraph 3.12).

5.10 The viability study of the unit should be carried out and decision taken on rehabilitation as far as possisble within a period of 3 months from the date of receipt of complete information on relevant aspects from the management of the unit. (Paragraph 3.13).

5.11 The Committee recommends the following parameters for rehabilitating sick SSI units considered as potentially viable :

(i) Unpaid interest on the dues of the banks and financial institutions upto the date of commencement of implementation of rehabilitation package may be segregated and funded in a separate account on an interest-free basis to be repaid within a period not exceeding 3 years. (Paragraph 4.2).

(ii) Interest on term loans extended by the banks and term-lending institutions may be reduced by not more than two per cent and in the case of tiny/decentralised units three per cent, below the prevailing rate. But in no case the revised rate should be less than the rate charged under the Integrated Rural Development Programme. [Paragraph 4.4).

(iii) The Guarantee fee payable to Deposit Insurance and Credit Guarantee Corporation (DICGC) in respect of guarantee cover for the advances to sick SSI units should be borne by the banks/financial institutions during the period of the rehabilitation programme. (Paragraph 4.4).

(iv) If penal rates of interest or damages have been charged, they should be waived, the waiver being granted from the accounting year in which the unit started incurring cash losses. (Paragraph 4.5).

(v) The irregular portion of the principal dues after segregation of unpaid interest may be funded as working capital term loan with a repayment schedule within a maximum period of 5 years. Interest may be charged on this funded loan at 10 per cent per annum. (Paragraph 4.6).

(vi) Cash losses incurred in the initial stages during the implementation of the nursing programme may also be funded by the bank or the financial institution, if only one of them is the financier. But if both are involved in the rehabilitation package, the financial institution concerned should finance such cash losses. Interest may be charged on the funded amount at the rates prescribed by IDBI under its scheme for rehabilitation assistance which includes such cash losses also. (Paragraph 4.7).

(vii) Need-based working capital should be sanctioned to the unit to enable it to carry on its operations, with interest at the minimum of the band of the prescribed interest rates during the rehabilitation period. (Paragraph 4.8).

(viii) The bank/financial institution may have to provide an additional amount upto 15% of the total estimated cost of rehabilitation package as contingency loan assistance at the concessional rate to be charged on the regular working capital limit. (Paragraph 4.10).

(ix) Payment of past dues to the State Government or other agencies, such as arrears of sales tax, electricity charges, may be permitted to be made over a period of upto 5 years without interest or penalty. (Paragraph 4.11).

(x) There will be need to provide the unit under rehabilitation with funds for start-up expenses (including payment of pressing creditors) or margin for working capital in the form of long term loans. This may be provided by the financial institution if it is involved and in other cases banks may provide the loan for start-up expenses while margin money assistance may either come from IDBI under its Refinance Scheme for Rehabilitation or should be provided by the State Government where it is operating a margin money scheme. The term loan from bank/financial institution should carry interest at the same rates as for existing term loans or at the rates prescribed by IDBI where refinance assistance has been obtained from it for the purpose. The State Governments should empower line officials at the district level to sanction and release within 3 months, margin money assistance as may be considered necessary by the banks/financial institutions for sick SSI units taken up for rehabilitation. (Paragraphs 4.9 and 4.14).

(xi) The promoters' contribution towards the rehabilitation assistance may be fixed at not less than 5% of the additional long-term requirements under the package in the case of tiny sector units and at 10% of such requirements for other units. In the case of units in the decentralised sector, promoters' contribution may not be insisted upon for rehabilitation. (Paragraph 4.15).

5.12 IDBI may consider meeting the entire cost subject to a maximum of Rs. 5,000/- per unit, of professional charges for preparation of rehabilitation plans and reports instead of 50% of the cost as at present and also extend this assistance for reports prepared by consultants other than Technical Consultancy Organisations/Small Industries Service Institutes who may be approved by banks/financial institutions. (Paragraph 4.13).

5.13 The banks and financial institutions may delegate adequate powers to senior officers at various levels such as district, divisional, regional/zonal and at the head office to sanction their commitments in the rehabilitation packages drawn up in conformity with these guidelines. (Paragraph 4.17).

5.14 District level forums may be established to bring about co-ordination among the various agencies concerned. The role of the forum will be to advise how and within what period the share of the agencies like State Government departments/undertakings, Electricity Board in the rehabilitation packages finalised by banks/financial institutions for potentially viable units should be met. The forum may monitor the implementation of the packages and also consider cases in which there is a difference of opinion among the promoter, bank and financial institution in regard to viability of the unit or the package of reliefs/concessions. The forum may include

(i) Regional Manager or equivalent officer of the Lead Bank for the district as Chairman,

(ii) Regional Manager or equivalent officer of the State Financial Corporation,

(iii) Representative of the concerned bank/s,

(iv) Representative of Small Industries Service Institute,

(v) Concerned officials of the State Government and

(vi) General Manager of DIC.

The General Manager of DIC may be designated as the nodal point for agencies other than the credit institutions to obtain the required concurrence and communication thereof to banks/financial institutions within 3 months from the time he is approached by the bank/financial institution. (Paragraph 4.19).

5.15 So long as the rehabilitation packages are drawn up within the framework of the parameters indicated in the report, prior approval of the Reserve Bank need not be sought by banks. Only in cases where concessions beyond the above norms are proposed to be provided to nurse a unit, the prior approval of Reserve Bank of India need be obtained. (Paragraph 4.18).