

Industrial Sickness

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Meaning

- Industrial sickness usually refers to a situation when an industrial firm performs poorly, incurs losses for several years and often defaults in its debt repayment obligations.
- The Reserve Bank of India has defined a sick unit as one “which has incurred a cash loss for one year and is likely to continue incurring losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as, current ratio is less than 1: 1 and there is worsening trend in debt-equity ratio.”
- The State Bank of India has defined a sick unit as one “which fails to generate an internal surplus on a continuous basis and depends for its survival upon frequent infusion of funds.”

Definition for Small Scale Industries

- Incurred a cash loss in the previous accounting year and was likely to continue with losses in the current accounting year and further its cumulative cash losses are equal to 50 per cent or more of its peak net worth during the last five years and It has defaulted in meeting four consecutive installments of interest.

A developing economy like India cannot afford the growing sickness in industries as it results in a colossal wastage of physical, financial and human resources. In the presence of the resource crunch, the industrial sickness becomes all the more an alarming problem.

Nature of Industrial Sickness

1. Genuine sickness which is beyond the control of the promoters of the concern despite the sincere efforts by them,
2. Incipient sickness due to basic non-viability of the project, and
3. Induced sickness which is due to the managerial incompetence and wrong policies pursued deliberately for want of genuine stake.

This is a man-made sickness in which some unscrupulous promoters adopt fraudulent practices to start a concern and to get away with the money obtained by fraud and deceit.

Causes of Industrial Sickness – External

- **General Recessionary Trend** Sometimes a general depression hits industrial units. This is reflected in lack of demand for industrial products in general. An overall slowdown in economic activities affects the performance of individual projects. Improper demand estimation for the products to project lands the industrial units in difficulties.
- **High Prices of Inputs** When the costs of manufacture are high and sales realisation low, the industrial unit cannot stand in the market. This happens when the prices of inputs such as price of fuel such as petroleum during energy crisis goes up whereas the competitive forces keep down the prices of the products.
- **Non-Availability of Raw Materials** When the supplies of raw materials are not available regularly or in good quality, the industrial units are bound to be in trouble. This often occurs in case of supply of imported raw materials.
- **Changes in Government Policies** : The industrial sickness is also caused by certain changes in policy designs of the government. These frequent changes affect the long-term production, financial and marketing planning of an industrial unit. Changes in Government policies regarding imports, industrial licensing, taxation can make viable units sick. For example, liberal import policy since 1991 has rendered many small-scale industrial units sick.
- **Infrastructure Bottlenecks:** Often the infrastructure difficulty is responsible for industrial sickness. No industrial unit can survive prolonged transport and power bottlenecks.

Causes of Industrial Sickness – Internal

- **Project Appraisal Deficiencies:** The industrial unit becomes sick when the unit has been launched without a comprehensive appraisal of economic, financial and technical viabilities of the project.
- **Industrial Unrest and Lack of Employee Motivation:** When there is labour discontent, no industrial unit can function smoothly and efficiently. When labour lacks motivation no good results can be expected and this results in sickness and non-viability of several industrial units.
- **Wrong Choice of Technology:** If the promoters use wrong technology, results are bound to be unsatisfactory. Many industrial units, especially in the small-scale sector, do not seek professional guidance in installing the correct machinery and plant. If the machinery and plant installed turn out to be defective and unsuitable, they are bound to suffer losses and become sick and non-viable.
- **Marketing Problems:** The industrial unit becomes sick due to product obsolescence and market saturation. The industrial unit becomes sick when its product-mix is not attuned to the consumers' demand.
- **Wrong Location:** If the location of an industrial unit happens to be defective either from the point of the market or the supply of inputs, it is bound to experience insurmountable difficulties.

Causes of Industrial Sickness – Internal

- **Lack of Finance:** Inadequate financial arrangements or in the absence of timely financial aid an industrial unit is bound to come to grief. It will not be able to withstand operational losses.
- **Improper Capital Structure:** If capital structure proves to be unsound or unsuitable especially on account of delayed construction or operation, it will result in cost overruns or unduly large borrowing and create financial trouble for the unit concerned.
- **Management Deficiencies:** The biggest cause of industrial sickness is the managerial inefficiency. Lack of professional management or experienced management and the existence of hereditary management is an important cause of industrial sickness. Inefficient management results in inability to perceive things in proper perspective devoid of routine considerations. Inefficient management is also unable to build up good team and inspire confidence for an organised collective effort and takes autocratic and high-handed decisions.
- **Voluntary Sickness:** There is some sickness which is voluntarily invited by the entrepreneurs for various motives like getting government concession or aid from financial institutions. Thus industrial sickness cannot be attributed to any single, or simple cause but may be the result of a combination of number of allied causes.

Suggestions for Rehabilitation of Sick Units

- **Cooperation between Term-Lending Institutions and Commercial Banks:** Since commercial banks provide working capital, they are in a position to know about the working of industrial concern. But assistance from term-lending institutions is also essential for rescue operations.
- **Coordination between Various Government Agencies:** All government agencies, both regulatory and promotional, must join hands to restore sick units to health.
- **Willing Cooperation and Clear Understanding with the Project Promoters:** Generally there is a lack of trust and confidence among the various interests concerned. It is found that government agencies and dealing institutions are more worried about their money and are anxious to recover them instead of curing of the health of the sick units.
- **Checking Over-Valuation of Inventories:** The banks should verify on a regular basis the valuation of inventories both in terms of quantity and price. This would prevent over-borrowing on the hypothecation of inventories.

Suggestions for Rehabilitation of Sick Units

- **Marketing:** There should be well organized and scientific marketing by the project promoters otherwise launching of a project will be a leap in the dark. Good marketing arrangements will prevent industrial sickness.
- **Recovery of Outstanding:** Every effort should be made to realize outstanding advances so that the concern is able to gather funds to avoid sickness.
- **Modernization of Machinery:** If the sick unit is to be restored to health, old and obsolete machinery and outdated technology should be discarded at the earliest.
- **Improving Labour Relations:** Restrictive labour and unreasonable trade unions are great obstacles. Improving labour relations will go a long way in curing industrial sickness.
- **Efficient Management:** If necessary inefficient management should be replaced. The key to industrial health lies in alert and efficient management. The management should show a calm approach, patience and perseverance, courage and ability to steer in bad weather.

Reference

- <https://www.economicdiscussion.net/india/industrial-sickness/industrial-sickness-meaning-incidence-nature-and-factors-causing-it/11045>