

## **An Overview of Sickness in Micro, Small & Medium Enterprises in India**

DR. K.A. GOYAL\*, DR. NITIN GUPTA\*\*, NEETA GUPTA\*\*\*

Incidence of industrial sickness is a continuous process and at a particular time some units in a particular industry will be running sick even if the industrial climate is favorable from all points of view. Its analogy can be understood from a society in which some are healthy, some are of medium health, some are sick and others are recouping from sickness. Similar case is with industrial units. Continuous sickness leads to closure. Hence, to avoid closure of industrial unit one has to act much in advance before the incidence of closure takes place. The effort should be to arrest or minimize the rate of sickness. Moreover, prompt action is needed as soon as the symptoms of sickness are visible. All possible remedial measures should be taken at this stage rather than making a hue and cry when the unit is actually dead.

In this present paper an attempt has been made to explore the Quantum of Sickness in Small Scale Industries in India. This paper is divided in four parts; first part discusses the Concept of Industrial Sickness. Second part deals with general causes of Industrial sickness, third part explore the Quantum of Industrial sickness from different perspective & the fourth part presents conclusion.

**Keywords:** Industrial sickness, Small Scale Industries (SSI), Micro, Small and Medium Enterprises (MSMEs).

### **Introduction**

Small Scale Industries play very important role in the economic development of any developing or under-developing country. These industries encourage self-sufficiency, self-reliance and co-ordination. In spite of its importance, the Small Scale Sector is beset with the problem of sickness. An industrial unit may face a number of odds during its implementation and operation stage because of a number of factors in the environment-internal and external. The sick industries are unable to utilize the production capacity or produced goods and services. The sickness has been acute and adversely affecting production and employment in the country besides other socio-economic repercussions, so there is need to identify sickness in the initial stages and to initiate the process of corrective measure and revive/rehabilitation before the sickness assumes a serious

proportion.

An industrial unit is considered sick when its financial position is not satisfactory and it becomes worse year after year. It incurs losses and its capital reserves may be stretched out in course of time. The increasing trend in Industrial sickness touching all types of units including Small, Medium and Large Scale Industrial Sectors, but Small Scale Industries are more prone to sickness as compared to medium and large scale industries. The sickness does not occur all of a sudden. A healthy unit shows profit and has positive values of net working capital and net worth. But when it tends towards sickness one of these may become negative.

**As per Reserve Bank of India:** "A unit which has incurred cash losses for one year and in the judgment

\*EAFM Dept. SGG Government College, Banswara, Rajasthan.

\*\*Faculty, Department of Management, IBS - Hyderabad.

\*\*\*Research Scholar, Banking & Business Economics, UCCMS, Udaipur.

of the bank, it is likely to continue to incur cash lose for current year as well as following year and which has an imbalance in its financial structure such as current ratio is less than 1:1 and worsening debt-equity ratio".

### **Causes of Industrial Sickness**

The small-scale industrial (SSI) sector is the worst hit. A number of Small Scale Industries are either born sick or stay sick. The earlier the detection of sickness, the earlier will be the remedy for sickness. As soon as they are detected as sick, immediate actions require curing them. The reasons for sickness are different in different units. The main reasons of sickness are management failure, non-availability of raw materials, power cuts, labour unrest, marketing problem etc.

Most of the Indian authors have classified the causes of industrial sickness under two important categories as follows;

#### **Internal Causes for Sickness**

Internal causes are the factors which are within the control of management. This sickness arises due to internal disorder in the areas as follow;

- a. Lack of finance:** This includes weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.
- b. Bad production policies:** The another very important reason for sickness is wrong selection of site which is related to production, inappropriate Plant & Machinery, bad maintenance of Plant & Machinery, lack of quality control & lack of standard research & development .
- c. Marketing and sickness:** This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate production mix, absence of product planning, wrong market research method and bad sales promotions.

- d. Inappropriate personnel management:** The another internal reason for the sickness is inappropriate personnel management policies which include bad wages and salary administration, bad labour relations, lack of behavioral approach causes dissatisfaction among the employees and workers.
- e. Ineffective corporate management:** Another reason of sickness is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of co-ordination and control etc.

#### **External Causes of Sickness**

The external causes are those which affect industrial group as a whole and on these the industry has no direct control. Following are some external causes:

- a. Personnel constraints:** The first and most important reason for the sickness are non availability of skilled labour or manpower, wages disparity in similar industry and general labour invested in the area.
- b. Marketing constraints:** The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restraint of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by government and market recession.
- c. Production constraints:** This is another cause of sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions.
- d. Finance constrains:** The another external cause for sickness is credit restrains policy, delay in disbursement of loan by government, unfavourable investments & fear of nationalization.

#### **Quantum of Industrial sickness**

Though, the Small-Scale Industries have been growing constantly over the years. There has been a gradual

increase in the incidence of sickness in MSMEs .

All India Fourth Census of MSMEs (2006-2007), data reveals that closure among MSMEs have gone down by 17% and working unit's percentage has gone up by 9% as compared to 3rd census of MSMEs ( 2001-02).

Sickness identified in registered MSMEs in terms of delay in repayment of loan or erosion in the net worth was of the order of 3.73%.

Out of the units having loan out-standing with institutional sources like banks and financial Institutions, sickness was about 29.40% in MSMEs.

Incipient sickness identified in terms of continuous decline in gross out put was 3.87% in registered MSMEs.

Combining the three yardsticks used to measure sickness, viz. (a) delay in repayment of loan over one year, (b) decline in net worth by 50% and (c) decline in output in last three years, about 6.49%of the units in registered MSMEs were identified to be either sick or incipient sick.

The particular of sickness relating to MSMEs in India is presented in following table:

**Table: 1 Sickness in MSMEs sector in India**

<b>Year</b>	<b>Total MSME Units in Lakh</b>	<b>Sick Units in Lakh</b>	<b>Percentage</b>
1998	89.71	2.21	2.46
1999	93.96	3.06	3.26
2000	97.15	3.04	3.13
2001	101.1	2.49	2.46
2002	105.21	1.77	1.68
2003	109.49	1.67	1.53
2004	113.95	1.43	1.25
2005	118.59	1.38	1.616
2006	123.42	1.26	1.02
2007	261.01	1.14	0.43
2008	272.79	0.85	0.31
2009	285.16	1.04	0.36
2010	298.08	0.78	0.26
2011	311.52	0.90	0.29

Source: Govt. of India, Ministry of Micro, small & medium enterprise Annual report 2011-12  
Reserve bank of media Hand book of statistics on Indian Economy- 2010-11

It can be notified from table that there were 89.71 lakh total MSMEs units in 1998 and it has increased to 311.52 lakh units in 2011. The percentage of sick units among the MSMEs was 2.46 % of total MSMEs in 1998 and it went upto 3.13% in 2000 and declined to a level of 0.29% in 2011.

**Table: 2 Investment in MSMEs in India**

Year	Total Investment (Rs. in crore)	Investment in sick units (Rs. in crore)	Percentage
1998	1333242	3857.00	2.89
1999	135482	4313.48	3.18
2000	139982	4608.43	3.29
2001	1468454	4505.54	3.07
2002	154349	4818.95	3.12
2003	162317	5706.35	3.52
2004	170219	5772.64	3.39
2005	178699	5380.13	3.01
2006	188113	4981.13	3.64
2007	500758	5266.65	1.05
2008	558190	13849.00	2.48

Source: 1. Govt. of India, Ministry of Micro, small & medium enterprise Annual report 2009-10  
2. Reserve bank of media Hand book of statistics on Indian Economy- 2008-09

The total investment in MSME units was reported at Rs. 1,33,242 crore in 1998, of which investment incurred on sick units has been worked out to 2.89%. The percentage of investment of sick units was revolving in the range of 3.52% to 2.48% highest percentage of 3.52% was in 2003. In absolute terms, the investment in sick units increased year after year as there was increase in investment in MSMEs unit.

**Table:3 Top 10 States in terms of percentage of sick enterprises**

Kerala	21.02%
Tamil Nadu	11.41%
Uttarpradesh	8.67%
Maharashtra	8.34%
Karnataka	6.18%
Rajasthan	5.25%
West Bengal	4.89%
Punjab	3.93%
Andhra Pradesh	3.92%
Madhya Pradesh	3.05%
<b>Total</b>	<b>76.66% of the total sick/ incipient sick enterprises</b>

Source: Final report 4th all India of census of MSMEs (2006-07)

The classification of sick, incipient sick and sick/incipient sick units on the basis of different type of small industries reflects that why units of particular line are

lying closed. Industry wise sickness in small enterprises is as follow:-

**Table: 4 Industry-wise Sickness in small enterprises in India**

	<b>Sick</b>	<b>Incipient Sick</b>	<b>Sick/Incipient sick</b>
Food product & Beverages	772	581	1086
Wearing Apparel	122	107	195
Fabricated Metal Products	192	98	254
Repair & Maintenance of Personnal & house hold Goods : Retail Trade	23	22	38
Textiles	413	297	577

contd....

Furniture	44	38	72
Machinery & Equipment	186	141	281
Other non- Metallic Mineral products	308	272	477
Repair & Maintenance of Motor vehicles, Retail Sale of Automotive Fuel	37	22	56
Wood & wood products	63	53	97
Chemical & Chemical Products	327	184	433
Rubber & Plastic Product	210	135	290

Source: Final report 4th all India of census of MSMEs (2006-07)

Industry-wise sickness in small enterprises has shown the high incidence of sickness in food products & beverages, textiles, non metallic mineral products, chemical & chemical products, rubber & plastic product etc.

The data on sick MSEs is compiled by the RBI from

the scheduled commercial banks. As at the end of march 2010, there were 77,723 sick micro and small enterprises in the country. There has been an increase in the number of sick SMEs to 90,141 at the end of march 2011. The number of sick MSEs and the enterprises under nursing with the amount out-standing against them from March 2005 to March 2011 are as under.

**Table: 5 Number of MSEs under nursing**

As at end of March	Total Sick MSE		Units Put under nursing	
	Number ( units )	Amount o/s ( Rs in crore )	Number ( units )	Amount o/s ( Rs. in crore )
2005	138041	5380.13	2080	259.93
2006	126824	4981.13	915	233.77
2007	114132	5266.65	588	268.93
2008	85187	3082.72	1262	126.92
2009	103996	3619.90	2330	424.26
2010	77723	5233.15	2360	478.84
2011	90141	5211.25	4698	518.30

Source: RBI Bulletin 2012

The above table shows that as at end of March 2010, banks put only 2360 units under nursing which constituted approximately 3% of the total sick unit.

The number of sick units have decreased in 2010 by approx. 25% but it has increased by approx. 16% in 2011. Number of enterprises put under nursing as percentage of total sick MSEs at approx. 5.2% at the end of March - 2011 which is very low.

### Conclusions

In spite of the incentives and facilities offered under Industrial policy and intensive efforts to promote large number of MSME over the years large numbers of units have been confronted with a number of problems which turn them into sick or closure. As, we have discussed before that highest number of sick units among the MSME increased in the year 1999 after that it declined by following years till 2010 but it again increased in the year 2011. At the same time, the investment blocked in sick MSME has also increased year after year. There was increase in the total investment among MSME has wider implications including locking of funds of the lending institutions, loss of scarce material sources and loss of employment. When the problems arise, the diagnosis and treatment would be easier. However, when sickness reaches an advanced stage, it becomes difficult and takes longer time to diagnose the reason and makes it more costly and expensive to bring the units back to normal, so there is a need to identify sickness in initial stages and initiate remedial measures before the sickness takes place.

### References

- Bidni S.N. and Mitra P.K. (1986) "*Industrial Sickness Identification and Rehabilitation*", Delhi, Vision Book Publication.
- Srivastava S.S. and Yadav R.A. (1986) "*Management and Monitoring of Industrial sickness*", New Delhi: concept publishing company.

Misra, Banarsi (1990) "*Monitoring of Industrial Sickness*", New Delhi: Deep & Deep Publications.

Phegade, G.D. (1993) "*Industrial Sickness*", Ramakant, Sugem, C. Jain, Mathur, N.D. Industrial Sickness, Jaipur: Pointer Publisher.

Mohanty, A.K. and Sahu P.K. (1990) "*Industrial Sickness in India*", Sahu, P.K. Industrial Sickness, New Delhi: Discovery Publishing House.

Govt. of India, (2011-12). *Ministry of Micro, Small & medium enterprises*, Annual Report.

Reserve Bank of India, (2011-12). *Hand Book of Statistics of Indian Economy*.

Final report fourth all India Census of MSMEs, (2006-07).

