

REHABILITATION OF SICK INDUSTRIAL UNITS

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ABSTRACT

Industrial units, going sick, have very adverse effect on growth and economy of the country. It results into (i) under utilization of capital assets, (ii) poor business scenario, (iii) investors holding back their investments (iv) large scale unemployment and (v) decrease in profitability of banks/financial institutions. Hence, prevention of sickness and rehabilitation of sick units assume greater importance. Government of India enacted a law 'Sick Industrial Companies (Special Provisions) Act, 1985' (SICA). The main objective of SICA is to determine sickness and expedite the revival of viable units or closure of unviable units. The Board of Industrial and Financial Reconstruction (BIFR) was set up in Jan. 1987. The role of BIFR as envisaged under SICA is (i) timely detection of sick units, (ii) determination of various measures to be taken in respect of sick unit and (iii) enforcement of such measures.

There may be many causes of sickness – (i) external factors, where management has little control and (ii) internal factors, where management has more or full control. It is seen that liquidity and constraints is the root cause of sickness. Any industrial unit going sick gives many disturbing signals in different areas of business. If these signals are noticed and controlled, the unit may be prevented from going sick. Few of these signals are in different areas, like (i) stock inspection, (ii) bank ledger, (iii) market report, (iv) financial statement etc. A unit once declared sick would have already consumed huge scarce resources. In order to utilise the assets and infrastructure already created for the unit, the unit is to be revived from sickness. Before attempting to rehabilitate a sick unit, a detailed viability study is to be made. It is advisable not to go for any revival programme if there are doubts. The viability study can be made on four important aspect – (i) technical, (ii) commercial, (iii) managerial and (iv) financial factors. In the process of rehabilitation of a sick unit, certain important information and its detailed analysis is very much required. These informations may be listed as (i) objectives and features of rehabilitation scheme, (ii) decision on rehabilitation and (iii) preparation of rehabilitation scheme which needs a detailed study/analysis like – (i) assesment of additional funds, (ii) preparation/arrangement of cash flow with creditors, (iii) marketing arrangement, (iv) recovery of debts, (v) disposal of unwanted assets etc.

Keywords : Act ; Account; Asset; Assesment; Bank; Board; Borrower; Company; Capital; Cash; Creditors; Commercial; Development; Division; Debt; Disposal; Economy; Entrepreneurship; Enforcement; Equity; Finance; Funds; Features; Feasibility; Holders; Industrial; Investor; Loss; Land; Labour; Liquidity; Ledger; Management; Market; Production; Promoter; Potential; Performance; Rehabilitation; Reconstruction; Remedial; Regulations; Registrar; Sick; State; Schedule; Signal; Stock; Technical; Unit; Unemployment; Unrest; Viable.

INTRODUCTION

Industrial Units that have gone sick have very adverse effect on the economy of the country. The following are the bad effects of sick industrial units-

a. It results into under utilization of capital assets which is a drain/loss of capital for any country. It adversely affects the process of capital generation for poor and developing countries.

b. The entrepreneurship level goes down. In a production system; land, labour and capital are considered as the factors of production. It is only the skill of project promoters that brings together the factors of production for accomplishing the task of nation building. Increase in industrial sickness slows down the pace of country's development.

- c. The investor's confidence shakes up badly. Hence, capital is not invested for productive use.
 - d. Industrial unit sickness results into large scale unemployment and industrial unrest.
 - e. Profitability of banks and financial organizations gets affected adversely since they do not get back their funds invested in projects that have gone sick. They also do not earn interest on their invested funds. Since their funds get blocked in sick projects, banks/ financial organizations could not recycle their funds which results that even a good project is not funded by them.
- Therefore, prevention of sickness and rehabilitation of sick projects assume greater importance.

DEFINITION

The Sick Industrial Companies (Special Provisions) Act 1985, defines sick industrial company as an industrial company which has at the end of any financial year accumulated losses equal to more than its entire net worth.

Government companies having State or Central Government share holding of 51% or more are kept outside the purview of the Act. Also small scale industrial units and ancillary units are kept outside the purview of the Act.

BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION (BIFR)

In the wake of sickness in the country's industrial climate prevailing in the eighties, the Government of India set up in 1981, a committee of experts to examine the matter and recommend suitable remedies. Based on the recommendations of the committee, the Government of India enacted a special legislation namely, the Sick Industrial Companies (Special Provisions) Act 1985, commonly known as SICA.

The main objective of SICA is to determine sickness and expedite the revival of potentially viable units or closure of unviable units. It was expected that by revival, idle investments in sick units will become productive and by closure, the locked up investments in unviable units would get released for productive use elsewhere.

The Sick Industrial Companies (Special Provisions) Act 1985 was enacted with a view to

securing the timely detection of sick and potential sick companies, the speedy determination by a body of experts of the preventive, remedial and other measures which need to be taken with respect to such companies and the expeditious enforcement of the measures so determined and for matters connected therewith or incidental thereto. The Board for Industrial and Financial Reconstruction (BIFR) was set up in January 1987 and functional with effect from 15th May 1987. The Appellate Authority for Industrial and Financial Reconstruction (AAIFR) was constituted in April 1987. Government companies were brought under the purview of SICA in 1991 when extensive changes were made in the Act including the changes in the criteria for determining industrial sickness.

SICA applies to companies both in public and private sectors owning industrial undertakings –

- a. Pertaining to industries specified in the First Schedule to the Industries Development and Regulation Act 1951 (IDR Act) except the industries relating to ships and other vessels drawn by power.
- b. Not being small scale industrial undertakings or ancillary industrial undertakings, as defined in section 3(j) of the IDR Act.
- c. The criteria to determine sickness in an industrial company are –
 - (i) The accumulated losses of the company to be equal to or more than its net worth i.e. its paid up capital plus its free reserves.
 - (ii) The company should have completed five years after incorporation under the Companies Act 1956.
 - (iii) It should have 50 or more workers on any day of the 12 months preceding the end of the financial year with reference to which sickness is claimed.
 - (iv) It should have a factory license.

The role of BIFR as envisaged in Sick Industrial Companies Act (Special Provision) is:

- a. Securing the timely detection of sick and potentially sick companies.
 - b. Speedy determination by a group of experts of the various measures to be taken in respect of the sick company.
 - c. Expeditious enforcement of such measures.
- BIFR has a Chairman and may have a maximum of 14 members, drawn from

various fields, including banking, labour, accountancy, economics etc. It functions like a court and has constituted four benches.

1. Reporting to BIFR

The Board of Directors of a sick unit is required to report the sickness to the BIFR within 60 days of finalization of audited account. BIFR has a prescribed format for this report.

Any other interested person/party can also report the facts of sickness of the unit to BIFR. Such interested parties may be bank/financial institution that has lent loan to the company. The BIFR has prescribed a different format for the report to be submitted by such interested parties.

When a company has been financed by a group of banks, it is the lead bank that should report to BIFR about the sickness under information to other contributing banks.

2. Enquiry by the BIFR

When a case is reported to BIFR, it is verified by the Registrar of BIFR as to whether the case falls under the provisions of Sick Industrial Companies (Special Provisions) Act 1985. If so, the BIFR accepts the case and notifies a date for hearing. BIFR, then invites the representatives of the sick unit, the representatives of concerned financial institutions/banks, central/state governments, trade unions etc. for the hearing. Enquiry is made u/s 16 of the Act.

After the hearing, the BIFR itself may conduct a study or assigned the work to an authorized agency to determine the facts. The enquiry should be completed within 60 days. Based on the enquiry report, BIFR declares whether the unit is sick or not.

3. Viability of Sick Units

A sick unit may be considered viable, if it would be in a position, after implementing a relief package spread over a period not exceeding five 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

aforsaid period.

The repayment period of restructured debts should not exceed seven years from the date of implementation of the package. In case of small decentralized sector units, the period of relief and repayment period of restructured debts will be two years and three years respectively. Based on the norms specified above, it is for the banks/financial institutions to decide whether a sick unit is potentially viable or not. The viability study of the unit should be carried out and decision on rehabilitation or otherwise should be taken expeditiously on receipt of complete information on all relevant aspect from the management of the unit. It is of utmost importance to take measures to ensure that sickness is arrested at the initial stage itself.

The management of the units should be advised about their primary responsibility to inform the banks/financial institutions if they face problems which could lead to sickness and also to restore the units to normal health. The branch officials who are familiar with the day-to-day operations in the borrowal accounts should also identify the early warning signals by making visits to the units and initiate corrective steps promptly.

CAUSES OF SICKNESS

Causes of industrial sickness have to be viewed from the general background of an industrial economy which experience prosperity and depression over a period of time. At any point of time, the problems of industries are not uniform. However, factors generally responsible for the problems can be divided into –

a. External Factors

These factors are those over which the management of the organization has little control. Government's plans and actions, failure of monsoon which affects agriculture and allied industries, emergence of strong competitors etc. are some of the external factors.

b. Internal Factors

These are those factors which are within the control of the management of the organization. These include faulty planning, implementation of the project, lack of inventory and cost

control, wrong selection of the site, faulty management accounting, managerial deficiency etc.

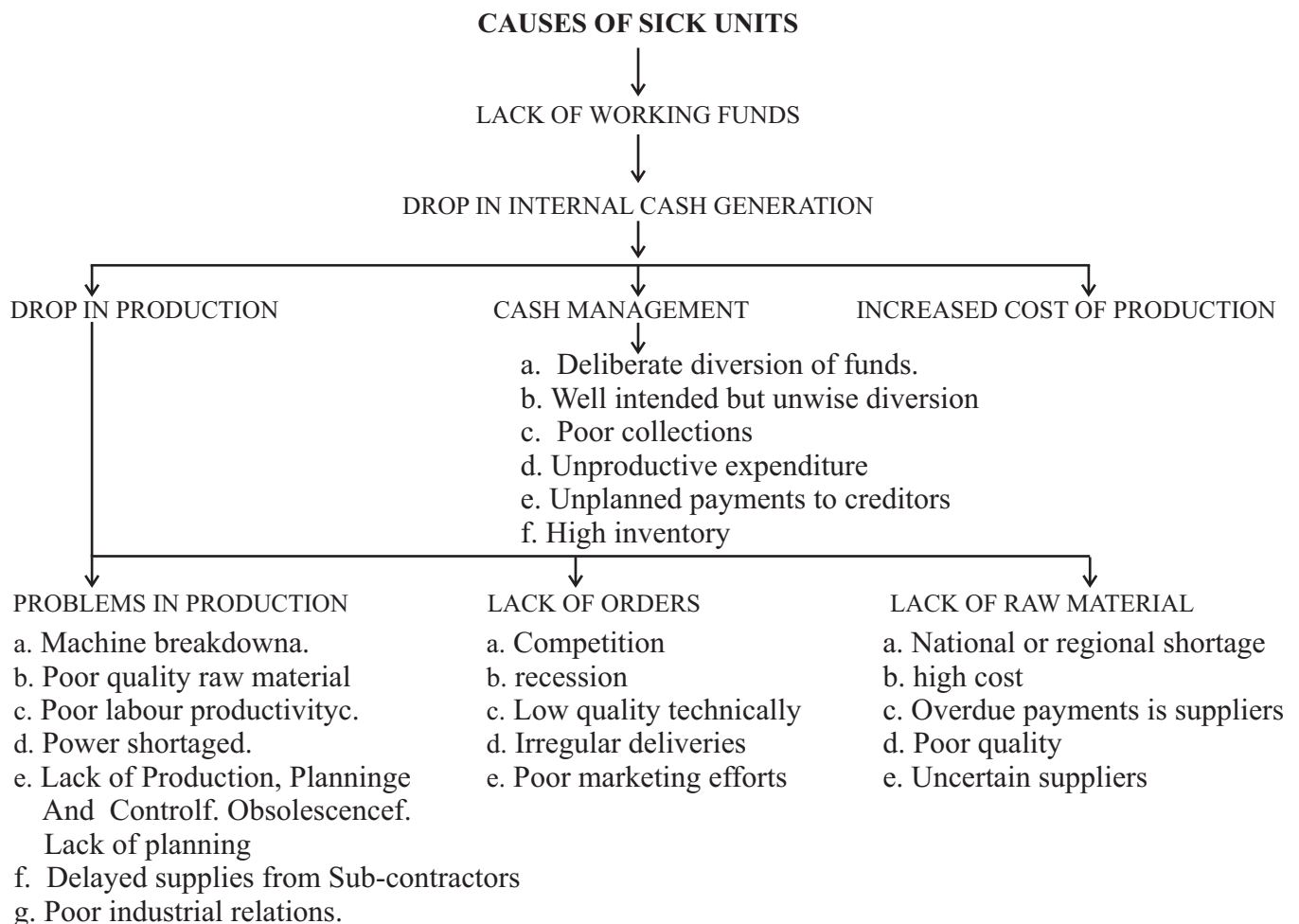
Though sickness may be caused either by internal or external factors, sometimes, the management may be able to revamp its organization, plan suitable strategies and take on the external factors to reduce their impact. Causes of sickness can vary from area to area, size to size of units and product to product. Sickness can originate right from the stage of conception or implementation of the project. In general, a unit becomes sick when it cannot generate adequate cash surplus from internal sources. Internal cash generation is the most important indicator of the unit.

- problems of production
 - lack of orders
 - lack of raw material
2. Poor cash management
 3. Increased cost of production
 4. Delayed payments by customers
 5. Diversion of funds for non-productive purposes

Thus, the causes of industrial sickness are numerous and varied. While studying causes, it could be seen that liquidity and constraint is the root cause of sickness. With continuous cash losses, the unit fails to meet its obligations and in this process, the unit faces a major threat from the suppliers of material. Loss in liquidity arises due to diversion of short-term funds for acquiring long-term assets. Due to worsening liquidity position the unit will have to operate at a lower capacity and lose its major customers. Thus, unit is said to have lost viability and considered sick.

Decline in the internal cash generation happens because of the following reasons :

1. Drop in production on account of–



INCREASED COST OF RAW MATERIAL

- a. Increased costs not covered in selling prices due to faulty costing
- b. Unutilized capacity
- c. Large order booked at fixed price
- d. High material waste

INCREASED OVERHEAD COSTS

- a. Inefficient production.
- b. Heavy borrowings, high interest charges
- c. Increased administration or selling costs.
- d. Unplanned capital
- e. New product development or diversification.

SIGNALS OF SICKNESS

There are several signals of sickness of an industrial unit. These signals are obtained from few sources. These include –

- i. Stock Inspection
- ii. Bank Ledger
- iii. Discussion with Borrower
- iv. Market Report
- v. Financial Statement

It is attempted to show how Banks generally obtain signals from these sources.

1. Stock Inspection

By comparing the stock statement of a borrower with his stock register, it is possible to ensure whether the stock position as declared by him is in accordance with the books of accounts. If there is a major variation, a signal is thrown. In case of large borrowers, the verification of stock includes:

- i. Stock kept at the factory premise
- ii. Finished stock at the sales depots of the company
- iii. Raw materials sent to outsiders for conversion or processing
- iv. Stock in transit

Besides physical verification of stock, it is necessary to ensure -

- i. Purchase price of raw material is same as indicated in the invoices
- ii. Position of goods in process and finished stock as, on the given date, is duly certified by the production manager
- iii. Pricing policy of the company and methods of valuation of stock is properly adopted.

Any major variation in stock value as per the stock statement on one hand and books of accounts on the other, gives an indication of misappropriation of stock.

- 1. The physical verification of stock ensures the

end use of loans. If the stock is inadequate, it indicates that the funds are not fully utilized for the agreed purpose.

- 2. If any stock not related to business is stored in the factory store, it indicates about trading activity.
- 3. If the stock statements are deliberately not submitted for a long time, it shows that stock may not be adequately held.
- 4. If the company has maintained excessive stock than required, it also indicates that the company is indulging in trading practices.
- 5. If the company has taken dual finance from two different bankers on the same stock, it indicates the dishonesty of the borrowers.
- 6. It is difficult to ensure the quality of the stock. But, if there is no movement of a major part of finished goods, it shows that the stock is outdated and not saleable.

2. Study of Bank Ledger

- 1. Poor turnover in an account indicates that either the sales are being routed through other banks or have dropped. In either case, the officer should make an enquiry. Otherwise, it may lead to misuse of funds by the borrower.
- 2. Cheques for large and round amount, post-dated cheques and cheques frequently issued in favour of those parties not related to business, may need to be examined carefully. A dialogue with the borrower could be initiated to find out the root cause and to take remedial steps.
- 3. The bill account reveals the major transactions of the business. Frequent return of bills may mean that the borrower's goods are being rejected by purchasers or the purchasers are sending payments directly to the borrower. When the bills are received back, the borrower is promptly advised that the bills have been returned by the collecting branch for the reasons, 'payment not forthcoming' and that he

should replenish his account forthwith. Often, banks are more worried about the account and not the reasons for non-payment.

4. If there has been irregularity in the account for a longer period, it indicates that outflows are in excess of inflows of cash.
5. If there are no operations in the account during a part of the year, it indicates that the unit has stopped working during that period. This is a signal for analysing the reasons for the inactive operations in the account.
6. The behaviour of the account during the year would help in getting the signal. The actual drawings should be related to the business requirements. It is expected that the unit normally requires more funds during the busy season. It is also expected that the unit has to maintain a minimum level of stock and, therefore, it requires minimum amount of funds all through the period. Any variation in these expectations would throw a signal.
7. If there is a heavy withdrawal of cash, this is a signal of sickness.

3. Discussion with Borrowers

1. Major breakdown in plant and machinery
2. Labor strike
3. Change in management
4. Sudden death/illness of Partner/Director
5. Disputes among Partners/Directors
6. Frequent reconstitution of the Firm/Board
7. Frequent requests for enhancement of limits

4. Market Reports

1. Recession in industry
2. Unfavourable position of the inputs
3. Unsatisfactory reports about the party
4. Sharp fall in prices
5. Unfavourable changes in government policy as regards imports, exports, price fixation, etc.
6. Routing transactions to other banks.

5. Financial Statements and other Data

1. Unsatisfactory trend in profits
2. Rise in book debts
3. Shortage of working funds
4. Unsatisfactory position of equity
5. Diversion of short term

NEED FOR REHABILITATION PROGRAMME

A unit once declared sick would have already

consumed huge scarce resources. In order to utilize the assets and infrastructure already created for the unit, the unit is to be revived from sickness.

The unit must have had some weak areas which could have been the cause for sickness. In spite of this, rehabilitating a sick unit is worth considering since the cost of setting up a new unit might be substantially higher as compared to the cost of rehabilitating a viable sick unit. It is important to know the factors that were responsible for leading the unit to sickness. They can be properly addressed in the revival package.

Revival of a sick unit may be justified in view of the socio-economic objectives such as the following-

- a. The unit may be in a sector that is vital to the economy. Abandoning the unit may lead to other socio-economic adverse effects.
- b. Many ancillary units may be dependent on the units that have gone sick. Unless the sick unit is revived, it will have a chain effect of all such dependent ancillary units becoming sick.
- c. Banks and financial institutions would have heavily invested their money in the sick units.

In order to get back the investments of banks and financial institutions, the unit is to be revived and made to work again and generate profit. Though banks and financial institutions that support a revival programme for the sick unit may be required to fund the unit again, they will be prepared to implement revival packages if they are convinced that they will, apart from getting back their present investment with interest, also get back their past investments too.

Viability study for rehabilitation proposal

Before attempting to rehabilitate a sick unit, a detailed and through viability study is to be made to ensure that the revival programme will be a success. It is not advisable to go far any revival programme if there are doubts that need further study.

The viability study shall enquire into the Technical, Commercial, Managerial and Financial factors.

1. Technical Factor

- a. Study the manufacturing process used by the unit. Ascertain if any new process has since been developed. Explore the necessity of switching over to the latest manufacturing process and study the cost, benefit aspects of such switchover.

b. Study the production capacity of different production sections and ensure if the production capacity of different sections are perfectly balanced. The imbalances, if any, are to be addressed first. The capacity of the project can be substantially enhanced without much investments by adding machines/equipments required for balancing.

2. Commercial Factor

a. Commercial failure of a project is mainly due to problems relating to the product itself, viz. defects in product design which may lead to consumer's dislike. Such situations indicate that the products offered by competitors have better features that attract consumers. Hence, the scope for product improvement for consumer's acceptability and the cost involved are to be studied.

b. In spite of consumer's liking of the product, if the project has gone sick, it is certain that the profit margins would also be low. Minor modifications in designing and packaging of the product with upward revision in price may be accepted by the consumer which may bring better returns to the company. This aspect may be studied by the carrying out test marketing for the improved product.

c. Every product follows a life cycle which passes through four stages, viz.

- Introduction
- Rapid Expansion
- Maturity
- Decline

Profit margins are low and sign of sickness appear when the product is in its 'decline' stage. Product improvements can only sustain the products at this stage. The decline once started cannot be contained for long in spite of product improvements. Product diversification may prove to be a feasible solution. Hence for rehabilitating a unit whose product has already reached its 'decline' stage, the feasibility of switching over to diversified products making use of the existing production facilities is to be studied. The cost-benefit analysis of additional investments needed for product diversification and additional expected benefits are to be analyzed.

3. Managerial Factor

A good project in the hands of a poor management team turns the project bad. Similarly, a good management is capable of making a average

project, a success. Hence, the first thing is to study whether the sickness is due to reasons beyond the control of the present management or due to the poor management.

If the sickness is due to reasons beyond the control of management but the management is still committed to the project and is serious about reviving the unit. The management's commitment and seriousness may be indicated, if -

- It has agreed to inject additional funds to revive the unit.
- It has agreed to strengthen the existing management by inducting professionals as Directors at various functional areas like technical/finance/marketing/ research and development etc.

The managerial appraisal will suggest the required changes in the existing organizational set up with an aim to reduce the man power without affecting the organizational efficiency.

4. Financial Factor

Since appraisal of other areas have financial commitment in one form or the other, financial appraisal assumes greater importance. All aspects of financial investments need to be considered and analyzed.

When a project that has long term debt becomes sick, it becomes necessary to ease the burden of debt. This necessitates restructuring of the debts. In general, banks and financial institutions offer the following concessions in their package of rehabilitation assistance.

- a. Reduction in interest rate of existing loans.
- b. Conversion of short term loans into long term loans.
- c. Conversion of part of long term loans into equity.
- d. Funding of overdue, unpaid interest and making it repayable in easy instalments. The funded interest component may carry concessional rate of interest or no interest at all.
- e. Offering a revised schedule of repayment for the principal components of term loan.
- f. Sanction of additional loan to meet the additional capital expenditure.
- g. Enhancement of working capital limits and regularizing the irregular portion of working capital.

If any asset is found not useful, it should be disposed off. The amount thus realized should be used in the rehabilitation programme.

PROCESS OF REHABILITATION

In general, a sick unit is defined in terms of its capacity to generate internal funds. A sick unit fails to generate internal funds on a regular basis and depends on its survival on frequent infusion of external funds. Hence, a need for detailed discussions on rehabilitation is very much felt.

1. Objectives of Rehabilitation Scheme

- (a) To enable the unit to operate at a profitable level.
- (b) To adjust the irregularity in the account, if any, according to a phased programme.
Thus, the rehabilitation scheme involves two aspects –
 - Preparation of feasibility report before implementing the scheme.
 - Careful monitoring of the performance of the unit during the nursing period.

2. Features of Rehabilitation Scheme

- (a) The scheme should be carefully drawn and all doubts must be clarified before chalking out the same. It must be supported by the bank and the borrowers.
- (b) As the unit is already heavily debt burdened, the scheme should be based on well calculated breakeven point. Under rehabilitation, the unit should operate at a much higher level than before and in this regard, the following questions must be answered-
 - Q. Is it possible to operate at a higher level under present market conditions?
 - Q. Will present plant and machinery allow manufacturing output at higher level of activity?
 - Q. Can present organization cope with increased level of activity?
- (c) To be able to operate at higher level, additional finance will be necessary and especially in cases where the net worth of the unit has become almost negative. In such cases, the end use of funds must be carefully monitored.
- (d) The repayment programme must be carefully worked out, enough funds must be available to the unit to operate at the desired level with a view to ensuring continued internal generation of surplus.
- (e) The rehabilitation should be decided by the concerned authorities within a reasonable time. The longer the decision making period, the greater would be magnitude of the problem.

3. Decision on Rehabilitation

Keeping in view all the possible outcomes, risk involved and the irregularity in the account, bank decision should aim at promoting the business activity and not the borrower as an individual. The decision should be based on likelihood of possible recovery. Finally, bank can support the borrower provided he has equal interest in coming out of the sickness. In other words, bank decision to rehabilitation a unit could be justified if it can –

- Generate adequate activity and employment.
- Control the business activity effectively.
- Commit additional funds, if necessary.
- Elicit co-operation from workers, suppliers of materials etc.

4. Preparation of Rehabilitation Scheme

(a) Assessment of Feasibility of the Project

The scheme should be finalized after a detailed study of the sick unit and understanding the problems of the unit. In this context, the following points should be kept in mind –

- i. Is the project feasible i.e. to operate above the break even point?
- ii. Are the prevailing market prices competitive? Is it necessary to change the pricing policy?
- iii. Are raw materials available to produce goods at the desired level of activity?
- iv. Are there any constraints such as power, transport, space, skilled workers etc?
- v. Are the existing machineries able to cope with the increased level of activity?
- vi. Is the borrower prepared to accept the financial discipline being imposed by the bank.

In all the above and any other related questions are positively answered, the project is feasible and should be considered for rehabilitation.

(b) Assessment of Additional Funds

Additional funds are required for the following

- i. Pending liabilities and payments to creditors.
- ii. Minimum funds required to purchase machineries to raise the productive capacity to the desired level.
- iii. Minimum workings capital requirements till cash cycle gets into motion.
Operating deficits in the short run arising as per cash flow estimates and any other shortage therein to be provided for.
- iv. Operating deficits in the short run arising as per cash flow estimates and any other shortage therein to be provided for.

Sources of Funds include -

- i. Additional capital contribution from the borrower and deposits from the friends and relatives.
- ii. Disposal of excess stock.
- iii. Speedy recovery of outstanding bills.
- iv. Internal generation of funds.
- v. Additional working capital inputs.
- vi. Additional term loan for acquisition of fixed assets.

(a) Preparation of Cash Flow Estimates

Banks have to prepare a cash flow statement showing cash flow estimates during the rehabilitation period. The estimates should be prepared on the basis of the realistic considerations. The scheme must also have a provision to sanction ad hoc limit in case the process of credit sanction takes a long time and in the meanwhile, the unit may need a small amount for certain immediate payments.

(b) Arrangements made with other Creditors

Before finalizing the scheme, banks must seek co-operation from the creditors for supply of raw materials. It must be ensured that supply of raw materials will continue on regular basis and at economic price. It must be ensured that the creditors will continue to grant normal credit to the borrowers.

(c) Marketing Arrangement

While finalizing the scheme, banks have to study the marketing problems and offer suggestions. Such suggestions would include –

- I A product that has lost its name in the market with the trader but not with the ultimate users is easy to re-establish by restoring confidence of the former.
- ii. If existing sales agents are not interested in continuing or not needed because of high cost, there could be two options; either to appoint other suitable selling agents or to create a wide network of selling agents who could be used to realize the overdue debts under gradual collection arrangements through steady supplies of the product to such parties.
- iii. *Freezing of existing bank borrowings:* This system is suggested for smooth banking operations. Cash credit balance against non-current inventory and old debts should be separated and frozen. Interest thereon should also be kept separate and frozen. For the purpose of deciding on the new financial

arrangements, the current assets which are in use should only be considered. The distinction between frozen and operating accounts gives operational control through security of transactions at the lender's end.

(d) Arrangement for Recovery of overdue Debts and Disposal of unwanted Assets

In some cases, it is possible that certain assets which are unwanted, should be disposed off. Banks have to identify such assets in consultation with the borrower. Banks must ensure that the borrower will make all efforts to recover over dues from customers. Before deciding on whether to rehabilitate the unit or not, banks should know what could be the realizable amount from the disposal of unwanted assets.

(e) Arrangement made with Financial Institutions and Equity Holders for additional funds

In case of the borrowers having facilities with more than one credit institution, the rehabilitation programme could be finalized with the consent of the consortium bankers. The possibility of issuing additional equity shares should also be examined. Under the rehabilitation programme, the stake of other lenders should be finalized.

(f) Arrangements for Management Performance

It is often thought of replacing the old management with new management to overcome the failure of the former. For ensuring the performance, the action can be as drastic as removing the entire top management. This is suggested in case of mismanagement, misuse of funds, wrong inheritance and other similar situation. Lenders have a right to participate in management and decision making; the critical positions are finance, purchase, sales and production. Success of these executives should be measured on the basis of growth of the borrower's business and safeguarding of lender's interest.

CONCLUSION

There are numerous issues relating to rehabilitation. Firstly, there is wide spread sickness in industrial sector. Nearly, 99% of the total sick units in the industrial sector in the country are from Small Scale Industries (SSI) sector. Further, 22% of the total bank credit is blocked in these SSI units. It

is disheartening to note that the percentage of bank credit for the sick units in the last decade has declined drastically. This indicates that banks have given less preference to rehabilitation of sick units in SSI sector though sickness is on the rise.

Further, the number of sick units being found viable is also negligible. Hence there is a major challenge before banks as to how to strengthen rehabilitation. Towards this end, need is felt to carry out a detailed study of sick units in the sector. In particular, it is appropriate to draw lessons from both successful as well as failed cases in rehabilitation of sick units.

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