

Sickness in Micro, Small and Medium Enterprises in India

¹T. Manohar & ²Dr. B. Ramachandra Reddy

¹Ph.D Research Scholar, Department of Commerce, Sri Venkateswara University, Tirupati-517502, Andhra Pradesh (India)

²Professor & Head, Department of Commerce, Sri Venkateswara University, Tirupati-517502, Andhra Pradesh (India)

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*Corresponding Author

Email: thuralamanohar@gmail.com

ABSTRACT

This paper attempts to examine the growth of number of sick units and to highlight the reasons for sickness in MSMEs sector in India. For this purpose the necessary data required for the study have been collected from Annual reports of Ministry of Micro, Small and Medium Enterprises, Government of India. Lack of demand for the product and shortage of working capital are the main reasons for the sickness in MSMEs. As per the extant guidelines, a Micro or Small Enterprise (as defined in the MSME Act 2006) may be said to have become Sick, if any of the borrower account of the enterprise remains NPA for three months or more. There is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year. This criterion enables banks to detect sickness at an early stage and facilitate corrective action for revival of the unit.

1. Introduction

The development of Micro, Small and Medium Enterprises sector has, therefore, been assigned an important place in India's national plans. In order to facilitate the promotion and development and enhancing competitiveness, it was felt to have a separate legislation for this sector. The need for a single legislation was pointed out by different committees and also by several associations. In addition there was no statutory consultative and recommendatory body to look into the promotion and development of this sector. The Government also felt that there was a need for defining the Micro, Small and Medium Enterprises concept, to promote service sector, to strengthen existing law on delayed payments and to facilitate closure of sick enterprises. Keeping this in view, the Government of India brought out Micro, Small and Medium Enterprises Development Act 2006, which became operational from 2nd October, 2006. It is a known fact that the service sector has fast emerged as a sector with a lot of employment potential and is becoming a good contributor to the economy. Therefore, manufacturing and service sectors have been defined separately.

Manufacturing Enterprises:

- Micro Enterprises – investment up to Rs. 25 lakh
- Small Enterprises – investment above Rs. 25 lakh and up to Rs. 5 crore
- Medium Enterprises – investment above Rs. 5 crore and up to Rs. 10 crore

Service Enterprises:

- Micro Enterprises – investment up to Rs. 10 lakh
- Small Enterprises – investment above Rs. 10 lakh and up to Rs. 2 crore
- Medium Enterprises – investment above Rs. 2 crore and up to Rs. 5 crore

2. Review of Literature

Subrahmanya Bala (2011) has probed the impact of globalization on the exports potentials of the small enterprises.

The study shows that share of MSME export in total export has increased in protection period but remain more or less stagnated during the liberalization period. However, the correlation co-efficient in liberalization period is higher than that of protection period suggesting that the relationship between the total export and MSME export has become stronger in liberalization period. This may be due to the drastic change in composition of MSME export items from traditional to non-traditional and growth in its contribution to total export through trading houses, export houses and subcontracting relation with large enterprises. Thus, the current policy of increasing competitiveness through infusion of improved technology, finance, and marketing techniques should be emphasized.

Ishu Garg & Suraj Walia (2012) says that Micro, Small and Medium Scale Enterprises (MSMEs) is facing numerous problems relating to obtaining credit, identifying technology, industrial training, quality control etc. MSMEs are facing numerous problems from large and medium enterprises in aspects of production and marketing.

Mukund Chandra Mehta (2013) says that lack of finance, low on production capacity, lack of skilled man power, lack of infrastructure facilities, lack of industrial estate facilities etc. He concludes that government should consider these factors influencing SME's in formulating of any schemes or programs.

N. Aruna (2015) say that MSME are facing problems relating to timely banking finance facilities, availability of suitable technology, marketing problems, availability of limited resources, lack of skilled man power etc. Her study identified that financial constraints and also issues relating to power and non availability of skilled man power, raw material etc.

Gisha.P.Mathai (2015) say that problems faced by SME's are SME's in India are facing problems relating to lack of credit facilities from banks, infrastructure problems, unavailability of raw materials, lack of technology, lack of training, lack of skills both managerial and technical, lack of laws pertaining to labour, competition from large companies

etc. They had given some suggestions in their article relating to challenges are implementing training and development awareness programs, research and development facilities, meeting consultants etc.

3. Research Objectives

1. To study the performance of MSMEs in India.
2. To analyse the problems of MSMEs.
3. To suggest the measures to minimize the problems.
4. To predict the sickness in sample MSME units.

4. Data Base

The study is based on secondary data only. Secondary data collected from Reserve Bank of India and Annual Reports of Ministry of Micro, Small and Medium Enterprises, Govt. of India. 2017-18. The period of the study was taken for eighteen years i.e., 2000-01 to 2017-18.

5. Performance of MSMEs in India

The Micro, Small and Medium Enterprises (MSMEs) sector plays a significant role in the improvement of production, employment and exports of the country. This sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country. There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide the maximum opportunities for both self employment and jobs.

The number of MSMEs increased from 101.1 lakh units in 2000-01 to 118.59 lakh units by 2004-05. The increase in units, however, has been predominant between 2004-05 and 2014-15 from 101.1 lakh to 512.23 lakh units. During the post reform period, the growth of MSME units has been gradual and steady from 101.1 lakh units in 2000-01 to 633.90 lakh units in 2017-18. There has been a steady growth in investment, production, employment and exports during 2017-18 since 2000-01. The investment and production increased from Rs. 1,46,845 crore and Rs. 2,61,297 crore in 2000-01 to Rs.11,86,432 crore and Rs.17,34,296.76 crore in 2017-18 respectively. There has been a steady increase of employment and exports of MSMEs. The employment in MSMEs increased from 238.73 lakh in 2000-01 to 282.57 lakhs during 2004-05, and to 1278.89 lakh during 2017-18.

The compound growth rate of number of MSMEs for the whole period (2000-01 to 2017-18) is 11.23 per cent, while it is 5.09 per cent in recent past against 15.05 per cent during 2000-01 to 2009-10 period. On the production front, the compound growth rate for the whole period is 11.60 per cent. It was 14.17 per cent during 2000-01 to 2009-10 period and 5.91 per cent in the recent past. The compound growth rate of fixed investment is more than the other components. It is 12.88 per cent for the whole period. The compound growth rates of employment have been worked to 10.22 per cent, 14.46 per cent and 3.58 per cent for the corresponding periods respectively.

The share of MSMEs sector to total exports increased consistently from 29.69 per cent during 1990-91 to 35.16 per cent during 1994-95 and to 69.82 per cent during 2017-18. It is striking to observe that the share of MSME sector has oscillated between a minimum of 29.69 per cent and a maximum of 34.29 per cent during the pre-reform period. In absolute terms, the exports of MSMEs sector increased from Rs.7,626 crores in 1989-90 to 29,068 crores registering an increase of 381 per cent. During the same period, the total exports recorded an increase of 298 per cent. During the post-reform period, the share of MSMEs sector in the total exports ranged between a minimum of 29.69 per cent and a maximum of 69.82 per cent. In absolute terms, the value of exports of MSMEs sector increased from Rs.9,664 crores in 1990-91 to Rs. 5,36,438 crores in 2017-18 registering an increase of 5550 per cent. This provides evidence to the fact that there has been a marked increase in the exports of MSME sector during the period 1990-91 to 2017-18.

6. Sickness in MSMEs

Concept of sickness

Sickness is easy to understand but difficult to define. It is a relative term. In common parlance, a sick industry is one which is not healthy. Different agencies have defined sickness differently. The definition of sick small-scale industrial units under the Reserve Bank of India's (RBI) instructions followed in September 1989 is as follows: A small scale industrial unit is considered as sick when:

Any of its borrower accounts has become a doubtful advance i.e., principal or interest in respect of any of its borrower accounts has remained overdue for a period exceeding two and half years and There is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years.

The Sick Industrial Companies (Special Provisions) Act, (SICA), 1985 defines a sick units as "an industrial company (being a Company registered for not less than seven years), which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered from cash losses in such financial year immediately preceding such financial year".

Signals and symptoms of sickness

It is clear from the definitions of sickness that industrial sickness does not occur all of a sudden in the life history of an industrial unit. In fact, it is a gradual process with distinct stages taking from 5 to 7 years to corrode the health of a unit beyond cure. It starts with downturn in the industry whose continuation leads to setting in of industrial sickness. The process of industrial sickness can be presented in different ways. Bidani and Mitra put this process of industrial sickness in the following manner.

PROCESS OF INDUSTRIAL SICKNESS	
Normal Units	<ul style="list-style-type: none"> → Functional areas, viz., production, marketing, finance and personnel are normal and efficient. Generating profits, Current ratio is more than one. → Net worth is positive and Debt-equity ratio is satisfactory
Tending towards sickness	<ul style="list-style-type: none"> → Initial aberration in some of the functional areas mentioned above. Decline in profit during last year and losses anticipated in current year
Incipient Sickness	<ul style="list-style-type: none"> → Deterioration in the above functional areas continues. → Cash losses incurred last year are expected in current year. → Deterioration anticipated during current year, although current ratio is more than one during last year. → Deterioration anticipated in debt-equity ratio during current year
Sickness	<ul style="list-style-type: none"> → Unit's functional areas have become inefficient, cash losses were incurred last year, expected in the current year and next year also → Current ratio is less than one and debt-equity ratio has worsened

Symptoms of sickness

The persistence of various signals over a long period of time becomes symptoms of sickness. The various symptoms ultimately reflect on plant performance, capacity utilization, financial ratios, share market price and practices in the diverse areas of finance, production, marketing and labour relations in the industry. Some of the important symptoms which characterize industrial sickness are persisting shortage of cash, deteriorating financial ratios, widespread use of creative accounting, continuous tumble in the prices of the shares, frequent request to banks and financial institutions for loans,

delay and default in the payment of statutory dues, delay in the audit of annual accounts; and demoralization of employees and desperation among the top and middle management level. However, the financial ratios, in all cases, cannot be considered as true symptoms of industrial sickness mainly due to two reasons. First, the sickness prone units, in order to present a better and sound image, do a lot of window dressing. Second, the financial data is available after a gap of one year. However, an early identification of signals and symptoms of industrial sickness makes the task of detecting sickness easier.

TABLE 1: SICKNESS IN MSMEs SECTOR IN INDIA DURING 2001 TO 2018

Year	Total MSME Units in Lakhs	Sick units in lakhs	Percentage	Total Investment in crores	Sick units investment in crores	Percentage
2001	101.10	2.13	2.10	146845	4505.54	3.06
2002	105.21	2.49	2.36	154349	4818.95	3.12
2003	109.49	1.77	1.62	162317	5706.35	3.51
2004	113.95	1.67	1.46	170219	5772.64	3.39
2005	118.59	1.43	1.20	178699	5380.13	3.01
2006	123.42	1.38	1.12	188113	4981.13	3.64
2007	361.76	1.26	0.35	500758	5266.65	1.05
2008	377.36	1.14	0.30	558190	13849	2.48
2009	393.70	1.13	0.28	621753	15668	2.52
2010	410.80	1.60	0.38	693835	18248	2.63
2011	428.73	2.53	0.59	773487	22354	2.89
2012	447.43	3.33	0.74	853139	31396	3.68
2013	467.56	6.04	1.29	967154	42586	4.40
2014	488.63	9.92	2.03	996236	52365	5.25
2015	512.23	10.12	1.97	1043243	63476	6.08
2016	554.34	11.36	2.04	1093376	75624	6.91
2017	586.82	11.96	2.03	1137674	87756	7.71
2018	633.90	12.64	1.99	1186432	98392	8.29

Source: 1. Government of India, Ministry of Micro, Small and Medium Enterprises, Annual Report 2017-18.

The above table reveals that 101.1 lakh MSME units in 2001 and their number has steadily increased year by year to 633.90 lakh units in 2018. The percentage of sick units among the MSMEs was 2.10 per cent in 2001 and it gradually decreased to 0.30 in 2008 and slightly increased to 1.99 in 2018. The total investments in MSME units was reported at Rs.1,46,845 crores in 2001, of which investment incurred on sick units has been worked out to 3.06 per cent. The percentage of investment of sick units

was revolving in the range of 7.71 per cent to 1.05. The maximum percentage of 8.29 per cent was observed during the year 2018. In absolute terms, the investment in sick units increased year after year as there was increase in investment in MSMEs units.

7. Causes and Consequences of Sickness

Sickness cannot be attributed to a single factor alone. In fact, it is the ultimate result of the cumulative effect of many factors/causes working simultaneously, which may be closely inter-related or even independent of each other. In view of the origin of the causes of industrial sickness, these are broadly classified into two categories:

- I. External or Exogenous Causes, and
- II. Internal or Endogenous Causes.

I. External Causes: The external or exogenous causes which are beyond the control of the industry usually affect the industry-group as a whole. There may be several external factors causing a unit sick and which may vary from time to time for industry to industry and even from one point of time to another for the same industry. The important external factors causing industrial sickness include the following:

- i. Changes in the industrial policies of the Government from time to time.
- ii. Inadequate and untimely availability of necessary inputs like raw materials, power, transport and the skilled labour.
- iii. Lack and shrinkage of demand for the product.
- iv. Recessionary trends hovering in the economy.
- v. Frequent industrial strikes and labour unrest.
- vi. Shortage of financial resources especially working capital.
- vii. Natural calamities like drought, floods, etc.

II. Internal Causes: Internal or endogenous causes are those which are within the control of the unit. These causes arise due to some internal deficiencies in various functional areas like finance, production, marketing and personnel. Many studies have brought out the fact that sickness is normally caused by internal factors, in one way or other, related to the mismanagement in various operational areas.

8. Corrective Measures

The growing incidence of sickness by size, region and industry followed by its far reaching socio-economic evil effects lends a strong realisation of urgency to the solution of the sick industry problem in India. Therefore, the remedial measures to detect the fast spreading disease of sickness in industries are explained below:

1. Industrial sickness is not an overnight occurrence but it is a gradual process taking from 5 to 7 years corroding the health of a unit beyond cure. Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce industrial sickness. It will not be wrong to argue that delayed identification of sickness could have been mainly responsible for such high proportion of non-viable units among the identified sick units. For identifying sickness at an early stage, appropriate yardsticks need to be evolved and developed.
2. In view of limited resources at their disposal, a large number of sick units may have to be permitted to close/liquidate, a fewer number of sick units may be picked up for revival/rehabilitation and a larger number of weak units may be combined together to

prevent sickness. The time has come to substitute the adage that 'what cannot be cured has to be endured' by 'what cannot be cured should be ended'. However, merger of a large number of sick units will be a welcome proposition only when complete social security for labourers displaced due to unit closure is prevalent in the society.

3. At present, the attitudes of three different sets of unit-management, financial institutions and labour do not converge as they view the problems of industrial sickness quite differently. For example, the management seeks freedom to close the unit if it feels that the unit is no more viable. Financial institutions think that whatever can be salvaged should be salvaged. Labour view is that in the event of the closure of the unit, they will lose job, provident fund and other benefits. Therefore, the unit should continue production. Thus, all the three drag in different directions. But, if these diverse viewpoints could be properly integrated, their approach could be integrated, their interests could also be converged and the unit can be salvaged in the best interests of all the three.
4. It is a happy augury that now sick small-scale industries also fall within the purview of the Board for Industrial and Financial Reconstruction (BIFR). It will be better to open a separate division in BIFR to deal with sickness in small-scale industries because small-scale industries are characterized by different sets of problems and prospects as compared to medium and large scale industries.
5. It is found that the rehabilitation programmes for sick small units are often carried out in an adhoc and haphazard manner. The rehabilitation packages provided to the sick units consist of only financial measures such as rescheduling of debts, sanction of additional term loans for installation of new machineries, enhancement of working capital limit etc. However, other problems like managerial, marketing, power and raw material are equally important which remain unattended to in the rehabilitation programmes. The need is, therefore, to provide for managerial efficiency, marketability of products, adequate availability of power and raw material in the rehabilitation programmes.
6. Having taken a decision to rehabilitate a sick unit, the programme should be finalized quickly and implemented speedily. Instances are many to suggest that any delay in these two matters aggravates the position and revival becomes a distant goal. At the same time, the rehabilitation programme needs to be implemented in full since a piece-meal implementation often jeopardizes the efforts to rehabilitate the unit. For instance, if the need-based funds are not released in full, the unit may not be able enough to operate above the break- even point. As a result, the unit may continue incurring losses and the additional working funds may also be wiped out to meet such losses.
7. In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically

review the accounts of the borrowers of small scale industries to identify units which are becoming sick or are prone to sickness. The Government of India and the Reserve Bank of India should be requested to direct commercial banks and financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take appropriate action.

8. Lastly past experiences indicate that many industrial units fall sick because of the improper opportunity scanning made by the entrepreneurs themselves. They start an industrial unit mainly to avail of subsidies, concessions and incentives from the Government. We know that a small scale industry entrepreneur is like a one-man band. He/she may possess one or two or three ingredients/requisites but not the all. To quote, an entrepreneur may have land, building, machinery etc., but may not have experience in functional areas like production and marketing. Therefore, the necessity of the situation is to impart necessary knowledge to the entrepreneurs in various functional areas through, like Entrepreneurship Development Programme (EDP).

9. Conclusion

If the accumulated losses of an industry reach equal to or exceed its entire net worth i.e., capital and reserve, it is called a sick industry. A small unit is considered sick when it's

accumulated losses equal to or exceeds 50% of its peak net worth in the immediately preceding five accounting years. Sickness in industry does not occur overnight rather it takes 5 to 7 years to erode the health of an industrial unit. Thus, the signs of sickness are discernable quite early in the form of decline in capacity utilization, shortage of liquidity, irregularity in maintaining bank accounts, delay in meeting statutory dues, etc. The persistence of these signals takes the form of symptoms like continuous shortage of liquid, funds worsening financial position, continuous tumble in share prices, frequent request to financial institutions for loans, etc. The identification of these signals and symptoms helps in detecting industrial sickness at an early stage.

The various causes of industrial sickness are classified into external and internal causes. While small scale units fall prey to external factors like lack of infrastructure, lack of finance, problems of marketing, etc., large and medium scale units fall sick mainly due to internal factors like mismanagement. Whatever may be the causes of sickness, the main consequences of sickness on an economy have been locking up the country's financial resources, wastage of scarce capital assets, loss of production and increase in unemployment. Industrial sickness is, thus, the bane of an economy. Hence, it needs to be detected and cured.

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