

# Industrial Sickness in **MANIPUR**

Causes and Remedies



G.P. Prasain  
Elangbam Nixon Singh

This book probes objectively the factors that are responsible for causing industrial sickness so that remedies can be searched for these causes in order to have a sound industrial economy in industrially backward states of India.

Considering the seriousness of the problems of industrial sickness which has vitiated the whole industrial environment in the state, the present book can be very useful for the policy makers, researchers and particularly the students' community for analyzing the deep-rooted problems ailing the small scale industries.

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CONCEPT PUBLISHING COMPANY Pvt. Ltd,  
NEW DELHI-110059

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ISBN-13 : 978-81-8069-823-1

First Published 2012

*Published and Printed by*

**Concept**  
Since 1974

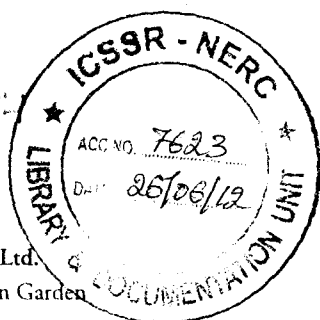
Concept Publishing Company Pvt. Ltd.

A/15-16, Commercial Block, Mohan Garden  
New Delhi-110059 (India)

T: 25351460, 25351794, F: 091-11-25357109

E: publishing@conceptpub.com, W: www.conceptpub.com

Editorial Office: H-13, Bali Nagar, New Delhi-110 015, India.



Cataloging in Publication Data--*Courtesy: D.K. Agencies (P) Ltd. <docinfo@dkagencies.com>*

Prasain, G. P. (Ganga Prasad), 1962-

Industrial sickness in Manipur : causes and remedies / G.P. Prasain, Elangbam Nixon Singh.

p. cm.

Includes bibliographical references (p. ) and index.

ISBN 9788180698231

1. Business failures—India—Manipur.
  2. Small business—India—Manipur.
  3. Small business—Government policy—India—Manipur.
  4. Industrialization:—India—Manipur.
- I. Singh, E. Nixon, joint author. II. Title.

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# 1

## Small Scale Industries and Economic Development

### 1.1 Introduction

An industrial unit is sick when it is not healthy. Sick industrial units are those whose accounts are chronically irregular and customers' complaints are increasingly high. Such units are unable to meet their obligations properly. Sickness in industries is a universal phenomenon. However, defining sickness in terms of industries, whether large or small, is still a tough exercise. There has been no standard definition of industrial sickness. Definitions are based on various norms, such as, generation of income, position of liquidity and insolvency, the amount and period of irregularities etc. Different study groups have attempted to define it, but a generally agreed definition is yet to be evolved. In economic sense, an enterprise is sick if it cannot earn a reasonable return on its capital. In another word, industrial sickness is the situation where the revenues of a unit are insufficient to meet the cost and the average rate of return on investment is less than the cost of capital. And the causes of industrial sickness in the industrial sector including small scale industries are not only many but also differ from region to region and industry to industry; therefore, there is the need to study the causes and find out remedies so as to rehabilitate the ones which are viable in order to avoid unnecessary waste of resources.

In fact, the consequences of industrial sickness extend too many sectors other than the banking sector. The following are some of the adverse effects of industrial sickness:

- (i) Industrial sickness caused closure of units thereby increasing unemployment and affecting income generation.
- (ii) Consumers are deprived of consumer goods on account of loss of production.
- (iii) Loss of revenue to government by way of lesser realization of duties, levies and taxes.
- (iv) Financial institutions, banks suffer on account of bad debts and loss of interest. Their recyclable funds get locked up.
- (v) Shareholders' earnings go down and other creditors loose their money.

### **1.2 Definition of Sick SSI unit**

An SSI unit should be considered 'Sick' if:

- (a) Any of the borrowal accounts of the unit remains sub-standard for more than six months i.e. principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard, is reduced in due course; or
- (b) There is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent of its net worth during the previous accounting year; and
- (c) The unit has been in commercial production for at least two years. This would enable banks to take action at an early stage for revival of the units. The above definition may be adopted for the purpose of reporting the data for the half-year ending 31st March, while for the purpose of formulating nursing programme; banks

should go by the above definition with immediate effect.

The following (Table 1.1) are some of the important changes brought out in the revised guidelines based on the recommendations of the Working Group on Rehabilitation of Sick SSI units' *vis-à-vis* Existing Guidelines:

**Table 1.1: Revised Guidelines of Sickness**

New Guidelines	Existing Guidelines
<p>1. The definition of a sick SSI unit may be changed as:</p> <p>(a) If any of the borrowal accounts of the unit remains sub-standard for more than six months i.e. principal or interest, in respect of any of its borrowal accounts has remained over-due for a period exceeding one year. The requirement of over-due period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard is reduced in due course;</p> <p>or</p> <p>(b) There is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent of its net worth during the previous accounting year; and</p> <p>and</p> <p>(c) The unit has been in commercial production for at least 2 years.</p>	<p>An SSI is considered 'sick' when—</p> <p>(i) any of its borrowal accounts has become 'doubtful' advance i.e. principal or interest in respect of its borrowal accounts has remained overdue for a period exceeding 2½ years, and</p> <p>(ii) 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.</p> <p>In the case of tiny / decentralized sector units, the period of relief / concessions and repayment period of restructured debts will be two years and three years respectively.</p> <p>In the existing guidelines there was no mention about providing additional working capital.</p>
<p>2. In the case of tiny /decentralized sector units, the period of reliefs/ concessions and repayment period of restructured debts, have been revised, so as not to exceed five and seven years respectively as in the case of other SSI units.</p> <p>While the other existing norms for grant of reliefs and concessions which can be extended by banks to potentially viable sick SSI units may continue, additional working capital limits may be extended at a rate not</p>	<p>As per the existing guidelines, the banks are expected to take, as far as possible, a decision on the viability or otherwise of a unit identified as sick, within a period of three months, from the date of receipt of complete information on the relevant aspects from the management of the unit.</p> <p>Further, the finalization of the nursing programme should be completed within a period of three months from the date of such</p>

exceeding the PLR.

- (i) Viability of a unit should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable'/'viable'. While identifying and implementing the rehabilitation package, banks/FIs may be asked to do 'holding operation' for period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of the deposit of sale proceeds during the period of such 'holding operation'.
- (ii) There is a need for increasing the promoters' contribution towards rehabilitation package from the present limits. It is open to the banks/financial institutions to stipulate a higher promoters' contribution, where warranted.

Further, in regard to concessions and reliefs made available to sick units, banks should incorporate, "Right of Recompense" clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the FIs and banks should be recouped from the units out of their future profits/cash accruals.

such decisions.

As regards 'holding operation', it is a new concept/facility, which was not there in the existing guidelines.

Promoters' contribution towards rehabilitation may be fixed at a minimum of 10 per cent of the additional long-term requirements under the rehabilitation package in the case of tiny sector units and 20 per cent of such requirements for other units.

Banks have been advised to incorporate the "Right of Recompense" clause in cases where the concessions/reliefs were beyond the parameters laid down by RBI.

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Source: RBI Reports, 2002.

### 1.3 Kinds of Sickness

An industrial unit may become sick at different stages due to different causes. The sick industries can be grouped in the following ways (Srivastava and Yadav, 1986):<sup>1</sup>

1. Born sickness
2. Achieved sickness and
3. Sickness thrust on them

### ***Born Sickness***

This refers to the sickness of a unit which has become sick right from its inception stage due to various causes which are-

- (a) Lack of experience on the part of promoters, wrong selection of the project, faulty project planning, wrong guidance given by the promotional agencies of the government, etc.
- (b) Time and cost over runs, delays in commissioning of big projects thereby leading capital shortage, liquidity problems like production costs, etc.
- (c) Improper financial management, lack of finance, heavy investment in unproductive capital assets, etc.
- (d) Locational problems, technological problems like out-dated machinery, wrong collaboration and, etc.
- (e) Wrong feasibility study or no study at all regarding market potentialities, consumer tastes, demand, etc.

### ***Achieved Sickness***

This refers to sickness to those industries which fail after operating due to internal causes. Internal causes are also known as endogenous factors. Such sickness arises due to:

- (a) Inefficient management of functional areas;
- (b) Lack of entrepreneurial skills;
- (c) Bad effect of government policies;
- (d) Unwarranted expansion and diversion of funds; and
- (e) Poor industrial relation and labour unrest, etc.

### ***Sickness Thrust on Them***

This is a kind of sickness caused by external factors which are

beyond the control of the entrepreneur. Some of these external causes are:

- (a) Government policies;
- (b) Credit squeeze;
- (c) Scarcity of raw-materials;
- (d) Lack of adequate transport facilities;
- (e) Lack of marketing facilities; and
- (f) Shortage of power, etc.

Thus, industrial sickness is caused by either internal or external factors. These factors may independently or jointly act for rendering the industries sick. In small scale industries, all these three types of sickness have been found.

#### **1.4 Signals and Symptoms of Industrial Sickness**

"If the diagnosis is wrong, the medicines would be found ineffective.

If the diagnosis is delayed, the medicines would be least proactive.

If the diagnosis is time honoured and right, the medicines would be highly effective"<sup>2</sup>

Sickness does not develop all at once. In most of the cases, it starts within the unit itself. Sick unit starts showing up signals which need to be identified and monitored before the unit becomes gravely sick. In the early stages of sickness, the warning signs in several functional areas are termed as signals. An industrial unit tends to show the signs of financial distress starting with short term liquidity problems, revenue losses, and operating losses and overdue of external credit until it reaches a stage where it is overburdened with debt and is unable to mobilise sufficient funds to meet its obligations. The signals gradually merge into symptoms and start affecting the plant performance, capacity utilisation, etc. (Table 1.2).

**Table 1.2:** Signals and Symptoms of Sickness

<i>Signals of sickness</i>	<i>Symptoms of sickness</i>
1. Under-utilisation of installed plant capacity	1. Abnormal delay in filing financial statement
2. High manpower turnover	2. Frequent demand for overdrafts
3. Inability to meet overhead expenses in time	3. Persistent cash shortage
4. Negative variations in operational ratios	4. Accumulation of inventories
5. Bad labour relations	5. Continuous decline in sales
6. Frequent interruptions in production	6. Frequent customer complaints
7. Delay in filing financial statement to bank	7. Absence of motivation
8. Misappropriation in financial statement	8. Frequent failure to get accounts audited
9. Failure to pay interest and instalments	9. No provision for future contingencies
10. Improper inventory management	10. Frequent demand for loans
11. Improper quality control	11. Continuous net loss
12. Decline in technical efficiency	12. Frequent stoppage of production
13. Stagnancy in cash credit account	13. Overvaluation of stock
	14. Non-payment of statutory dues
Approach to sickness	Growth of sickness

### 1.5 Industrial Sickness in India

Industrial sickness is a worldwide phenomenon. Every country has its own laws to tackle this menace effectively. In India, there were multiple laws and agencies dealing with this problem but they lacked coordinated approach. Therefore, a need was felt to have a legislation which dealt exclusively with the problem and the matters relating thereto. Accordingly, the Sick Industrial Companies (Special Provisions) Act, 1985 (popularly known as SICA) was enacted to make, in the public interest, special provisions with a view to securing the timely detection of sick and potentially sick companies owning industrial undertakings, the speedy determination by a board of experts, of the preventive, ameliorative, 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. Essentially this legislation was enacted to safeguard the economy of the nation and to protect viable sick units. It was aimed at reviving and rehabilitating sick industries; that is to say, to resuscitate, revive and rehabilitate potentially viable industries and to suggest feasible and necessary measures. The law provided for the establishment of Board for Industrial and Financial Reconstruction (BIFR) and Appellate Authority for Industrial and Financial Reconstruction (AAIFR) besides defining the sick unit. According to the Sick Industrial Companies Act (SICA) a sick industrial company is defined as an industrial unit being a company registered for not less than five years which has at the end of financial year accumulated losses equal to or exceeding its entire network.

### ***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 under the Chairmanship of Shri T. Tiwari to examine the matter and recommend suitable remedies therefore. Based on the recommendations of the Committee, the Government of India enacted a special legislation namely, the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986) commonly known as the SICA.

The main objective of SICA is to determine sickness and expedite the revival of potentially viable units or closure of unviable units (unit herein refers to a Sick Industrial Company). 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 (hereinafter called the Act) was enacted with a view to securing the timely detection of sick and potential sick companies owning industrial undertakings, the speedy determination by a body of experts of the preventive, ameliorative, 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 of experts named 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 (AAIRFR) 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, *inter alia* 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 and;
- (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.

### ***Genesis of SICA, 1985***

- Industrial sickness had started right from the pre-Independence days.
- Government had earlier tried to counter the sickness with some *ad hoc* measures.
- Nationalization of Banks and certain other measures provided some temporary relief.

- RBI monitored the industrial sickness.
- A study group came to be known as Tandon Committee was appointed by RBI in 1975.
- In 1976, H.N. Ray Committee was appointed.
- In 1981, Tiwari Committee was appointed to suggest a comprehensive special legislation designed to deal with the problem of sickness laying down its basic objectives and parameters, remedies necessary for revival of sick units.
- The committee submitted its report to the Govt. in September 1983 and suggested the following:
  - Need for a special legislation
  - Need for setting up of exclusive quasi-judicial body.
  - Thus the SICA came into existence in 1985 and BIFR started functioning from 1987.

### ***Objectives of SICA***

The objectives of this Act (SICA) as incorporated in its preamble, emphasises the following points:

- The SICA had been enacted in the public interest to deal with the problems of industrial sickness with regard to the crucial sectors where public money is locked up.
- It contains special provisions for timely detection of sick and potentially sick industrial companies, speedy determination and enforcement of preventive, remedial and other measures with respect to such companies.

Those measures are to be taken by a body of experts. The measures are mainly:

- (a) Legal
- (b) Financial restructuring
- (c) Managerial

B.I.F.R: No. of Cases Registered from Year 1987 to 2005—State-wise

S.No.	State	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
1	Andhra Pradesh	10	8	32	31	48	30	31	30	29	44	13	503
2	Bihar	1	1	2	3	0	1	1	8	3	3	0	50
3	Chhattisgarh	1	2	1	1	1	6	1	2	3	1	0	29
4	Chandigarh	0	0	3	1	2	0	1	2	0	0	0	11
5	Dadra & Nagar Haveli	2	0	0	1	0	1	4	0	0	0	0	10
6	Goa	1	0	1	2	2	2	3	5	3	4	2	30
7	Gujarat	8	14	15	38	32	35	47	57	45	45	23	504
8	Haryana	5	3	13	18	15	10	10	8	8	4	1	146
9	Himachal Pradesh	2	3	3	3	0	3	1	1	1	1	0	48
10	Jammu & Kashmir	0	1	0	0	0	7	0	0	0	0	0	6
11	Jharkhand	1	2	1	1	2	0	4	5	2	1	0	44
12	Kerala	3	3	1	2	5	10	6	15	13	12	9	137
13	Karnataka	6	3	9	18	24	21	14	24	26	18	8	282
14	Madhya Pradesh	7	11	15	21	12	22	18	25	22	11	7	236
15	Maharashtra	12	13	42	82	84	95	119	132	101	91	39	1076
16	Manipur	0	1	1	0	0	1	0	0	0	0	0	3
17	Meghalaya	0	0	0	4	0	0	0	0	0	0	0	4
18	NCT Delhi	1	0	7	23	38	41	42	71	38	45	19	335
19	Nagaland	0	0	0	2	0	0	1	0	0	0	0	4
20	Orissa	2	4	1	7	4	4	1	4	6	2	1	69
21	Pondicherry	1	1	0	1	0	0	2	0	1	1	1	17

(Contd.)

(Contd.)

S/No.	State	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
22	Punjab	9	4	12	21	24	21	29	21	24	21	12	242
23	Rajasthan	5	3	12	12	10	20	15	21	20	16	10	221
24	Tamil Nadu	6	5	29	34	39	51	55	69	42	38	18	521
25	Tripura	0	0	1	0	0	0	0	0	0	0	0	2
26	Uttar Pradesh	14	9	17	19	35	23	25	28	12	12	5	344
27	Uttaranchal	5	2	0	2	3	3	4	5	2	0	0	42
28	West Bengal	13	3	14	21	31	28	26	26	28	29	11	392
29	Assam	0	1	1	2	2	1	3	0	1	0	1	19
	Total	115	97	233	370	413	429	463	559	430	399	180	5327

Source: BIFR.

**Commutative Details of Companies Registered as on 31.12.2005  
(State-wise)**

**Eastern Region**

<i>State</i>	<i>No. of companies Regd.</i>	<i>Net Worth (Rs crore)</i>	<i>Accumulated losses (Rs crore)</i>	<i>No. of Workers</i>
Assam	19	771.58	1728.94	16818
Bihar	50	810.54	1963.71	15689
Chhattisgarh	29	423.94	690.60	3852
Manipur	3	3.45	12.11	192
Meghalaya	4	126.64	154.35	889
Nagaland	4	56.70	194.38	1326
Orissa	69	1003.10	1651.37	28455
Tripura	2	5.95	20.84	1414
West Bengal	392	9164.26	17272.84	615496
Jharkhand	44	1745.53	5181.19	258409
<b>TOTAL</b>	<b>616</b>	<b>14111.69</b>	<b>28870.33</b>	<b>942540</b>

Source: BIFR.

**Important Provisions of SICA**

- Constitution of two quasi-judicial bodies – BIFR and AAIFR and their Benches.
- Procedure of the Board and the Appellate Authority.
- Filing of references under section 15 and criteria of sickness.
- Provision of enquiry under section 16.
- Appointment of Special Directors and OAs under sections 16(4) and 17(3).
- Preparation of sanctioned scheme under sections 17(2), 17(3) and 18(4).
- Provision for monitoring of schemes under section 18(12)
- Rehabilitation by giving financial assistance under section 19.
- Winding up of sick industrial companies under section 20.
- Protection to safeguard the interests of the sick companies under sections 22(1), 22(2), 22(3).

- Provisions for dealing with potential sickness under sections 23, 23(a), 23(b).
- Provision in case of misfeasance under section 24.
- Provision for seeking information and giving information – Central Govt., RBI, FIs State institutions and sick companies and in case of amalgamation other companies.
- Power to seek assistance of MMs and DMs under section 29.
- SICA has overriding provisions under section 32 over other laws except the provisions of FERA, 1973 and the ULCRA, 1976.
- Penalty under section 33 for violation of the Act.

### ***Appellate Authority for Industrial and Financial Reconstruction (AAIFR)***

The AAIFR (Appellate Authority) was set up for hearing appeals against the orders of the Board only. Section 14 of SICA, 1985 states that the proceedings before the Board and the Appellate Authority would be deemed to be judicial proceedings and it would be deemed as Civil Court for the purpose of section 195 and Chapter XXVI of Code of Criminal Procedure, 1973 and every proceeding before the court shall be deemed to be judicial proceeding within the meaning of Sections 193 and 228 and for the purpose of section 196 of the Indian Penal Code.

It has, however been the experience that the Act has not proved to be effective up to the desired extent to either check the problem of industrial sickness or find timely solution for restructuring the corporate sector. Many deficiencies were noticed in the operation of SICA, which are as follows:

- (a) Restrictive definition of sickness and belated cognizance thereof;
- (b) Slow pace of BIFR intervention;
- (c) Excessive protection to sick industries under Section 22 of SICA providing for automatic stay of all proceedings;

- (d) Necessity of consensus amongst secured creditors before finalisation of revival scheme;
- (e) Lack of monitoring of sanctioned revival scheme; and
- (f) Delays in the winding up of sick companies.

In 1997, the Government brought forward a Bill namely the Sick Industrial Companies (Special Provisions) Bill, 1997 which sought to repeal the Act of 1985 besides strengthening the mechanism of BIFR by making certain far reaching improvements in the existing law. In a nutshell, that Bill addressed almost all the deficiencies noticed in the working of the SICA. But that Bill lapsed on the dissolution of Lok Sabha.

In view of the problems noticed in BIFR mechanism, Government has been considering various alternatives including repeal of SICA and enacting a separate legislation to address the problems of industrial sickness more effectively.

Accordingly, the Sick Industrial Companies (Special Provisions) Repeal Bill, 2001 was introduced in Lok Sabha on 30th April, 2001.

The Bill to repeal SICA contains the following provisions:

- (i) The Bill seeks to repeal SICA;
- (ii) BIFR and AAIFR will be dissolved.
- (iii) All proceedings pending before BIFR and AAIFR prior to their dissolution shall stand abated.

Another Bill viz., the Companies (Amendment) Bill, 2001 was introduced in the Lok Sabha on 30th April, 2001 with the main objective of facilitating or expediting revival/rehabilitation of sick companies and protection of workers interests and where necessary, winding up of companies. The Bill seeks to provide for the setting up of a National Company Law Tribunal. The powers and jurisdiction presently being exercised by various bodies viz., Company Law Board, Board for Industrial and Financial Reconstruction (BIFR), Appellate Authority for Industrial and Financial Reconstruction (AAIFR) under SICA and powers of High Courts in relation to winding up of companies are proposed to be consolidated and entrusted to the Tribunal with a view to avoid multiplicity of fora to

decide the matters regarding revival/rehabilitation/mergers/amalgamation or winding up of companies. The Bill was referred to the Standing Committee on Home Affairs which have approved the provisions of the Bill with slight changes and presented their report to the Parliament.

According to information compiled by RBI from scheduled commercial banks, as on March 31, 2001, there were 2,52,947 sick/weak units consisting of 2,49,630 units in the SSI sector and 3,317 units in the non-SSI sector. Among the 3,317 units, the private sector, public sector and joint/co-operative sector accounted for 2,942 units, 255 units, and 106/14 units, respectively. The total number of sick SSI units has decreased from 3,04,235 units to 2,49,630 units but the number of sick/weak units in the non-SSI sector has increased from 3,164 to 3,317. The total bank credit blocked in sick units has increased from Rs. 23,656 crore (as on March 31, 2000) to Rs. 25,775 crore (as on March 31, 2001). The small scale sector has Rs. 4,506 crore (17.5%) blocked in its units while the non-SSI sector has Rs. 21,270 crore (82.5%). Bank credit blocked in the non-SSI sector in private, public and joint/co-operative units was Rs. 17,705 crore, Rs. 2,986 crore, and Rs. 537 crore/Rs. 42 crore, respectively. Since its inception in May 1987 till the end of December, 2001, BIFR has received 5,192 references under the Sick Industrial Companies (Special Provisions) Act, 1985, (SICA). These references include 262 references from Central and State Public Sector Undertakings (CPSUs and SPSUs). Out of the references received, 3,759 were registered under section 15 of SICA. While 804 references were dismissed as non-maintainable under the Act, 550 rehabilitation schemes, including 22 by AAIFR (Appellate Authority of Industrial and Financial Reconstruction)/Supreme Court, were sanctioned and 953 companies were recommended to be wound up. 296 companies have been declared "No Longer Sick" and have been discharged from the purview of SICA, on their net worth turning positive, after the implementation of the schemes.

Among the 262 references for public sector undertakings 178 (76 CPSUs and 102 SPSUs) were registered up to December, 2001. Rehabilitation schemes were sanctioned for 16 CPSUs and 22 SPSUs. It was recommended that 20 CPSUs and 27

SPSUs be wound up. 4 CPSUs and 7 SPSUs were declared no longer sick. The gross disposal of cases by BIFR declined from 188 in 1997 to 141 in 1998, however, subsequently, it rose to 179 in 1999 to 385 in 2000. However, the gross disposal of cases was 293 up to December 31, 2001.

The Ministry of Finance furnished the details of cases referred to BIFR (as on 30.06.2002), cases disposed of, and cases pending etc. were as under:

(1) References received	
(a) Public Sector	268
(b) Private Sector	5181
	Total <u>5449</u>
(2) Registration Declined:	1371
(3) Cases under Scrutiny:	55
(4) Reference Registered:	
(a) Private Sector	3838
(b) Public Sector	185
	Total <u>4023</u>
(5) Accumulated Losses: Rs. 80283 crore of all the Registered cases as on 31.07.2002	
(6) Year-wise Registration	
Year	Total
1987	311
1988	298
1989	202
1990	151
1991	155
1992	177
1993	152
1994	193
1995	115
1996	97
1997	233
1998	370
1999	413
2000	429
2001	463
2002	264
Total	<u>4023</u>

(7)	(i)	Dismissed as non-maintainable	900
	(ii)	Winding up recommended to the concerned High Court	1029
	(iii)	Dropped on becoming the net worth positive	41
	(iv)	Rehabilitation schemes	555
Approved/Sanctioned			
	(a)	Declared no longer sick/Revival	314
	(b)	Schemes sanctioned/Under Revival	241
			Total 2525
(8)	Details of Pending cases		
	(i)	Draft Schemes Circulated	77
	(ii)	Winding up Notice issue	117
	(iii)	Under Inquiry	1151
	(iv)	Schemes Failed and Reopened	64
	(v)	Pending Cases Remanded by AAIFR	44
	(vi)	Stay ordered by Courts	45
			Total 1498
(9)	Age-wise pendency as on 30.06.2002		
	Less than one year		255
	1		370
	2		288
	3		192
	4		157
	5		59
	6		20
	7		15
	8		27
	9		9
	10		24
	11		15
	12		12
	13		20
	14		12
	15		23
			Total 1498

Source: Ministry of Finance, 2002 Reports.

## **1.6 RBI and Rehabilitation of Sick SMEs**

The Reserve Bank of India (April 24, 2008) placed on its website ([www.rbi.org.in](http://www.rbi.org.in)), the Report of the Working Group on Rehabilitation of Sick SMEs for wider dissemination and comments. Comments on the Report could be sent to the Chief General Manager-in-Charge, Rural Planning and Credit Department, Reserve Bank of India, Central Office, Fort, Mumbai-400001 or could be e-mailed. A Working Group was constituted under the chairmanship of Dr. K.C. Chakrabarty, Chairman and Managing Director, Punjab National Bank to suggest measures for improving credit flow to the SME sector as well as measures for early implementation of rehabilitation/nursing of sick SME units by examining feasibility of bringing in additional capital through alternative routes, such as, equity participation, venture financing, etc. The Working Group held wide ranging discussions with the stakeholders, namely, industry associations, banks and Government agencies. The Working Group submitted its report on April 17, 2008. The Working Group has given various recommendations/measures/actions, which need to be taken by banks, NABARD, SIDBI, RBI and State Government for enhancing credit flow to the SME sector as well as for early implementation of rehabilitation/nursing of sick SME units.

### ***Highlights***

- As an incentive for proper restructuring package at the time of rehabilitation, necessary support for business restructuring, modernization, expansion, diversification and technological upgradation as may be felt necessary by the lenders may also be encouraged. Support schemes like Credit Linked Capital Subsidy Scheme in case of units in other (than rural) areas, KVIC Margin Money Scheme (for units in rural areas) may be extended for rehabilitation packages also.
- The State Governments should introduce a Single

Window concept for providing relief and concessions to sick Micro and Small Enterprises (MSEs).

- In order to incentive the banks to take rehabilitation measures, the repayment of any additional exposure taken as part of the rehabilitation package should be given priority on the cash flows as well as security as compared to other debt.
- The interest of at least six months after commercial production can be included as a part of the project cost. Sufficient moratorium, say, two years for repayment of the principal should also be given so as to prevent cases of incipient sickness at the commencement of production and help units to establish themselves in the market at the beginning.
- Medium Enterprises should be taken out of the purview of BIFR and the banks given the responsibility of their rehabilitation, more so because only a fraction of the medium enterprises are covered under Sick Industries Companies (Special Provisions) Act, 1985 (SICA) and their rehabilitation done under the supervision of BIFR.
- Raising the limit of Rs. 20 lakhs to Rs. 50 lakhs for Lok Adalats, measures to strengthen the DRT/legal machinery, dedicated Bench for SMEs to expedite the process of recovery, Asset Reconstruction Companies especially for Micro Small and Medium Enterprise (MSME) loans are some other suggestions of the Working Group.

### **1.7 Small Scale Industry: Concept and Significance**

More recently, enhancing small scale industries has been viewed as an effective way of fostering the private sector's contribution to both the growth and the equity objectives of development. Small scale industries are found in existence in every country. They play a key role in the industrialization of developing country. This is because they provide immediate large-scale employment and have a comparatively higher

labour-capital ratio, they have a shorter gestation period and relatively smaller markets to be economic, they need lower investments, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remained unutilized, and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location.

Small Scale Industries have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. Today, India operates the largest and oldest programmes for the development of small scale industries in any developing country. As a matter of fact; small sector has now emerged as a dynamic and vibrant sector for the Indian economy in the recent years.

There is no uniformity in the definition and meaning of small scale industry (SSI) from one country to another and from one time to another in the same country depending upon the pattern and stage of development.

As a result, there are at least 50 different definitions of SSI found and used in 75 countries.<sup>3</sup>

The Fiscal Commission, 1950<sup>4</sup>, for the first time, defined a small scale industry as one which is operated mainly with hired labour usually 10 to 50 hands.

In order to promote small scale industries in the country, the Government of India has set up the Central Small Scale Industries Organization and the Small Scale Industries Board in 1954-55. The SSI Board at its first meeting held on January 5th and 6th, 1955, defined Small Scale Industry as a unit employing less than 50 employees, if using power, and less than 100 employees without the use of power and with a capital asset not exceeding Rs. 5 lakhs.

The various changes in the definitions of Small Scale Industry over a period in India is resumed in Table 1.3.

As per the Abid Hussain Committee's recommendations on Small Scale Industries, the Government of India has, in March 1997, further raised investment ceiling to Rs. 3 crore for small scale industries and to Rs. 50 lakhs for tiny units.

**Table 1.3:** Definitions of Small Scale Industry

Year	Investment Criterion		Employment Criterion
	SSI Unit	Ancillary Unit	
Upto 1958	Fixed capital investment up to Rs. 5 lakhs	Same as SSI Unit	Employment up to 50 workers if using power or up to 100 if not using power.
1959	The value of machine was taken as the original price paid irrespective of new or old machinery	Same as SSI Unit	Employment up to 50 workers if using power or up to 100 workers if not using power.
1960	The Gross value of fixed assets up to Rs. 5 lakhs	Gross value of fixed assets up to Rs. 10 lakhs	Employment criterion dropped
1966*	Rs. 7.5 lakhs	Rs. 10 lakhs	Employment criterion
1975	Rs. 10 lakhs	Rs. 15 lakhs	dropped
1980	Rs. 20 lakhs	Rs. 25 lakhs	Employment criterion
1985	Rs. 35 lakhs	Rs. 45 lakhs	dropped
1991	Rs. 60 lakhs	Rs. 75 lakhs	Employment criterion
			dropped
			Employment criterion
			dropped
			Employment criterion
			dropped

Source: S.S. Khanka; Growth *vis-à-vis* Sickness in Small Scale Industries in India, *Productivity*, Vol. 35, No. 3, October-December, 1994, pp. 488-493.

Note: Since 1996 investment limit applicable only to plant and machinery.

\* The export units are those who export at least 30 per cent of the annual production. The ceiling of investment shall be Rs. 75 lakhs for it.

The new policy initiative in 1999-2000 for the small scale sector has reduced the investment limit for small scale and ancillary undertakings from existing Rs. 3 crore to Rs. 1 crore.

An ancillary unit is one which sells not less than 50 per cent of its products to one or more industrial units.

For small scale industries, the Planning Commission of India uses terms 'village and small scale industries'. These include modern small scale industries and the traditional cottage and household industries.

The “Micro, Small and Medium Enterprises Development Act, 2006” which became operational from October 2, 2006, been changed the earlier concept of ‘Industries’ to ‘Enterprises’. As per this act, enterprises have been classified broadly into:

- (1) Enterprises engaged in the manufacture/production of goods pertaining to any industry; and
- (2) Enterprises engaged in providing/rendering of services. Manufacturing Enterprises have been defined in terms of investment in plant and machinery (excluding land and buildings) and further classified into:
  - (a) Micro Enterprises – investment up to Rs. 25 lakhs;
  - (b) Small Enterprises – investment above Rs. 25 lakhs and up to Rs 5. crore;
  - (c) Medium Enterprises – investment above Rs. 5 crore and up to Rs. 10 crore.

The Service enterprises have been defined in terms of their investment in equipment (excluding land and buildings) and further classified into:

- (a) Micro Enterprises – investment up to Rs. 10 lakhs;
- (b) Small Enterprises – investment above Rs. 10 lakhs and up to Rs. 2 crore;
- (c) Medium Enterprises – investment above Rs. 2 crore and up to Rs. 5 crore.

It defines ‘Medium Enterprises’ to facilitate achievement of economies of scale. It provides statutory basis to purchase preference policy for goods and services provided by micro and small enterprises. It also strengthens the legal provisions to check delayed payments to micro and small enterprises. The Act provides statutory basis to the National Board for Micro, Small and Medium Enterprises. The cumbersome two-stage registration process of SSI has been substituted with an optional filing of memorandum by Micro, Small and Medium Enterprises.

The Act aims at facilitating the promotion and development of small and medium enterprises in a competitive way. It seeks to empower the Central Government to notify programmes, guidelines or instructions for facilitating the promotion and growth of small and medium enterprises. One of its primary objectives is to make provisions for ensuring timely and smooth flow of credit to small and medium enterprises.

On the other hand, small scale industries are known and defined with different names and characteristics in different countries. In the USA, the manufacturing firm is officially a small business for Government procurement purposes, if it is not dominant in its field of operations and if it has fewer than 500 employees, or if it is certified as small by the small business administration for purposes fewer than 250 employees, depending on size and the standard set for different industries. In the UK, there is no demarcation between small and large industries. However, in books and treatises on industrial subjects, units employing less than 500 workers are generally referred to as small units.<sup>5</sup>

### **1.8 Evaluation of Small Scale Industries**

The recent years have witnessed a dramatic expansion in the small scale sector in almost all parts of the world. It is not only in developing countries that have experienced such a phenomenon but a similar experience has also been gathered by a large number of industrially developed countries like Japan, U.K., Germany, U.S.A., Switzerland, etc.

Japan for instance, achieved rapid industrialization through the small scale sector in the latter half of the 19th century. The small scale sector in this country plays a catalytic and predominant role in the accelerated growth of the economy.

Even in the developed countries of Western Europe and United States of America, there is recognition that small and rural industries play a significant role in complementing the large industry and in providing opportunities for creative energies of the skilled people. The watch industry in

Switzerland – the largest in the world – is based on the work of a multitude of small, almost cottage industrial units.<sup>6</sup> So important were small firms considered in United Kingdom that a report (Boiton Committee, 1971) paraphrased the famous saying of Voltaire that, “if small business does not exist, it would be necessary to invent it”. In the United States of America, small business administration, more than 30 years old, had been placed on a statutory footing reporting directly to the President.

### **1.9 Small Scale Industries in India**

The small scale industries are the hub of many economic activities in a developing country like India. The role played by these industries in the economic activity of advanced industrialized countries is also very significant. The socio-economic transformation of India cannot be achieved without paying adequate attention to the development of this labour intensive and capital-sparing sector.

The most significant aspect of small industry development is that this sector has stimulated economic activity of a far reaching magnitude and has created a sense of confidence among a huge number of small entrepreneurs about their strength and validity. For example, the small scale industries have registered a phenomenal growth in their number, production, employment and exports over the years.<sup>7</sup>

Their numbers have grown from 16000 in 1950 to 31.21 lakhs in 1998-99. While production has registered an increase of more than twenty times, employment grew by about three times over the period 1974-99. Growth in exports has been particularly commendable from mere Rs. 393 crores in 1973-74 to a mounting high figure of Rs. 57,488 crores in 1998-99. It is also encouraging to mention that the small scale enterprises account for 35 per cent of the gross value of the output in the manufacturing sector, about 80 per cent of the total industrial employment and about 40 per cent of the total exports of the country.

The Government of India has also given important emphasis to the development of small scale industries in the

country's Five Year Plans. The rationale behind such an approach is that small scale industries provide substantial scope for increasing employment as they are labour intensive and they require comparatively less capital. They have lesser gestation period and can easily be set up in rural areas or in backward areas. They need relatively small markets to be economical and hence they have advantage in being set up as ancillary units. They stimulate growth of entrepreneurship and promote a more decentralized pattern of ownership and location.

Since independence, these industries have made an all round effort to boost the economy. The traditional village and cottage industries provide a vital means of livelihood to village artisans. These industries create the scope of employment to the rural mass and by the way their act as a positive catalyst to ensure the quality of life to the village people. At the same time, these labour intensive industries are considered to be the important means of checking economic concentration in the hands of a few. Equitable distribution of national income is the thrust of our economic policy and towards this end; small scale industries play a crucial role. Employment generation, minimization of economic dispersal, development of backward areas, improvement of the quality of the village population are some of the many important dimensions of our pragmatic planning which always encourages the growth of small scale industries.

### **1.10 Small Scale Industries and Economic Development**

Small scale industries contribute significantly to social and economic development objectives such as labour absorption, income distribution, rural development, poverty eradication, regional balance and promotion of entrepreneurship. It generates immediate employment opportunities with relative low capital/investment, promotes more equitable distribution of national income, makes effective mobilization of untapped capital and human skills and leads to dispersal of manufacturing activities all over the country, leading to growth of villages, small towns and economically lagging regions.<sup>8</sup>

Particularly in developing countries, small labour intensive industries have been favoured basically to create employment opportunities in an economy with abundant unskilled labour even though such industries may not always be supported on grounds of economic efficiency. In addition, a low capital requirement, given an appropriate market environment, is believed to stimulate growth of numerous indigenous industries with wide regional dispersal. This helps to promote balanced growth, more equitable income distribution as well as diversification of the industrial structure which often leads to increased utilization of national resources. The process, if properly nurtured, can help the entrepreneurial class and boost capital formation as well as growth of industries in the small sector in urban and rural areas. Such a process creates the basis for transformation of technology management and paves the way for creative development while sustaining national heritage and skills. It will also pave the way for the growth of right type of entrepreneurship in the country.

Empirical studies have shown that small scale industries are important vehicles for meeting the growth and equity with social justice objectives of developing economics. Achievement of these objectives is seen as desirable in almost all developing countries, though the relative importance of these objectives varies from country to country, depending on the differences in the socio-economic and political complexes. In short, small enterprises sector help in generating large scale employment, wage goods and incomes in a fairly dispersed manner; mobilizing dormant skills and resources enhancing entrepreneurship; energising village economies aiding the process of backward area development and playing an important role in the overall process of industrialization.<sup>9</sup>

### **1.11 Manipur: Industrial Scenario**

Manipur is an industrially backward state. Economic reforms have failed to revive the down trend in industrialization. Manipur has practically no large scale industry which can produce a commodity in a large scale. The few small scale

industries that are functioning are also not functioning optimally due to lack of availability of resources and the appropriate environment. The share of manufacturing in real Net State Domestic Product (NSDP) declined from 4.16 per cent in 1980-81 to 3.37 per cent in 1995-96. The growth rate of this sector in the 1990's was insignificant. The share of the tertiary sector started dominating the economy without any significant relationship in the commodity producing sectors of the economy. Private sector employment constituted only 3 per cent of organized sector employment. More than 4 lakhs people are registered in the live register of employment exchanges. Even though International Monetary Fund (IMF) studies categorize this state with 23 lakhs people (2001 census) as one of the fastest growing states in India, its per capita income has persistently fallen short of all India level.<sup>10</sup>

The district-wise number of registered industrial units, employment, investment and production since inception up to 31.3.2005 can be analyzed from the Table. 1.4

It can be observed from Table 1.2 that Imphal West District of Manipur has the largest number of industrial units totally 5185, whereas Imphal East District has the lowest i.e. 137. The other 7 districts of Manipur have units numbering less than 1000 each.

### **1.12 Manipur: Its Geographical Location**

Manipur is a state on the eastern frontier of India, covering an area of 22,327 sq. kms. It is surrounded by Nagaland in the north, Myanmar in the east, Assam in the west and Mizoram in the south. It lies within a rectangle contained by 23.83N and 25.68N latitude and 93.03E and 94.78E longitude.<sup>11</sup> The area is visibly marked by two distinct regional peculiarities. They are the valley and the hills. The valley claims about 15 per cent of the total state area and spreads over an area of 1843 sq.kms. accommodating about 65 per cent of the total population. The density of population in the valley is 628 per sq.km. as per 2001 census. The hill region spreads over an extensive area of 20,513 sq.kms. Its small population representing 35 per cent enjoys about 85 per cent of the total area. The density of population in hill is only 49 per sq.kms. as per 2001 census.

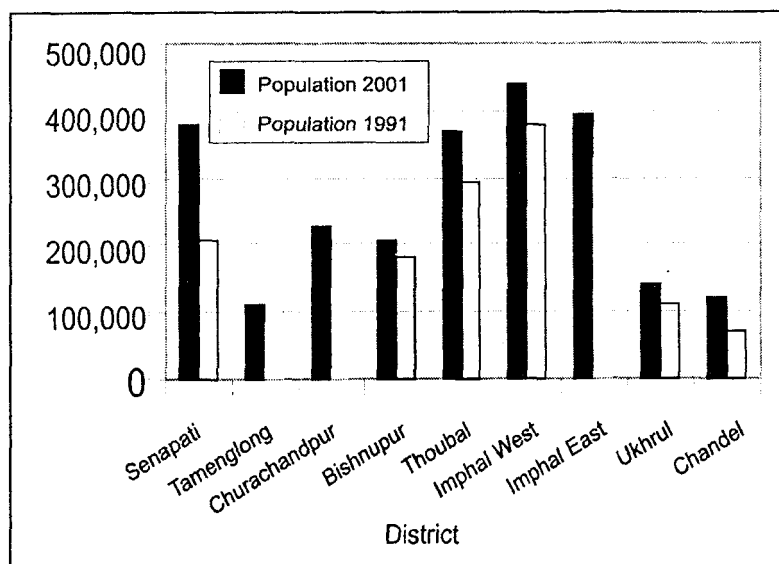
**Table 1.4:** District-wise No. of the Registered Industrial Units, Employment, Investment & Production since inception upto 31-03-2005

Sl. No	Name of Districts	No. of Units		Production		Unit		Investment		Employment			
		SIDO	Non-SIDO	SIDO	Non-SIDO	Total	Non-SIDO	SIDO	Non-SIDO	Total	Non-SIDO	Total	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.	Imphal West	2905	2280	5185	44.27	35.27	79.59	9.72	7.29	17.01	15083	11505	26588
2.	Ukhrul	670	105	775	9.73	2.07	11.80	2.70	0.43	3.13	3931	530	4461
3.	Senapati	242	52	294	2.25	1.63	3.89	0.66	0.26	0.92	1056	252	1308
4.	Churachandpur	425	109	534	3.73	3.39	7.12	1.86	0.33	2.19	2231	1085	3316
5.	Tamenglong	277	208	485	1.07	5.16	6.23	0.31	0.87	1.18	564	1121	1775
6.	Chandel	199	130	329	3.61	1.60	5.21	0.81	0.42	1.23	1157	648	1805
7.	Thoubal	437	133	570	11.08	1.26	12.34	3.16	0.2	3.38	3123	746	3869
8.	Bishnupur	507	175	682	11.21	1.14	12.35	2.32	0.36	2.68	3044	852	3896
9.	Imphal East	117	20	137	4.67	0.43	5.10	1.27	0.05	1.32	666	250	916
	<b>Total</b>	<b>5779</b>	<b>3212</b>	<b>8991</b>	<b>91.63</b>	<b>51.95</b>	<b>143.63</b>	<b>22.81</b>	<b>10.21</b>	<b>33.04</b>	<b>30855</b>	<b>16989</b>	<b>47934</b>

Source: "Nucleus Cell", Directorate of Commerce &amp; Industries, Manipur.

### 1.13 Population of the State

According to the Census of India 2001, the population of the state of Manipur as on 31st March, 2001 stood at 23,88,634 persons. This represents merely 0.23 per cent of the total population of India which is about 1,027,015,247 persons as per 2001 figures. The population of the state among the different districts according to the Census of India 1991 and 2001 is given in Diagram 1.1 and percentage distribution of population in rural and urban is given in Diagram 1.2.

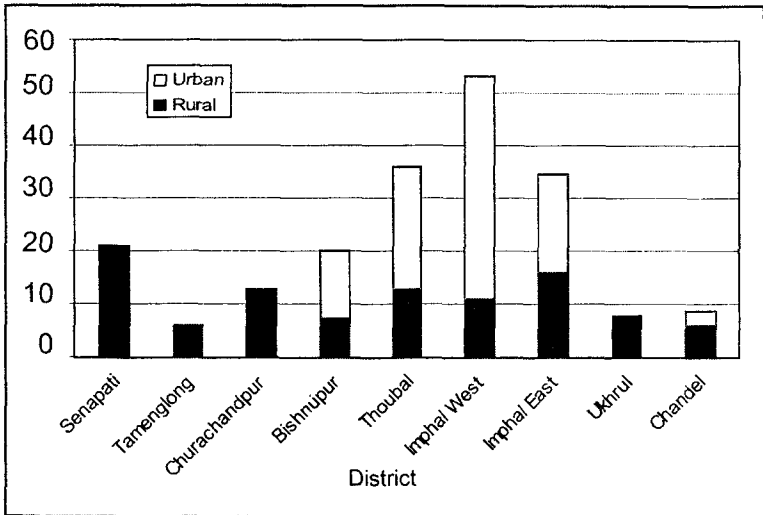


**Diagram 1.1:** District-wise Population of the State in 1991 and 2001

Source: Census of India, 2001. Population of Manipur, Directorate of Census Operation, Manipur.

### 1.14 Review of Literature on Industrial Sickness

An attempt is made here to review the existing literature on the subject of industrial sickness. Any literature available on the industrial sickness varies from individual researchers to committee reports, empirical studies to descriptive works and



**Diagram 1.2:** Percentage of Distribution of Population Rural/Urban

Source: Census of India 2001. Population of Manipur, Directorate of Census Operations, Manipur.

general to specific nature of studies. A brief review of literature in this concerned subject is given as follows:

Paul J. Fitz Patrick's<sup>12</sup> study tried to examine whether there was any significant difference in the trend of ratios for failed firms at least three years prior to failure. He concluded that all the failed firms were persistently different from the non-failed firms at least three years prior to failure. It was observed that the ratios of net worth to debts and net profits to new worth were the best indicators of success or failure of the ratios used.

Nalini V. Dave<sup>13</sup> in her Ph.D. thesis in 1987 entitled "Industrial Sickness and Key Area of Management" has examined the strength and weakness of management practices in textiles units against the norms laid down by various authorities of management science. The most significant contribution of her study was that quality to management of the unit is the most important determinant of health of any enterprise.

Bidani and Mitra<sup>14</sup> in their book entitled "Industrial

Sickness – Identification and Rehabilitation” have stated that industrial sickness develops gradually and is not an overnight phenomenon. But the financial institutions are kept in dark till the concern enters into a critical stage. If the financial institutions are taken into confidence at the initial stage, the diagnosis and treatment would certainly be much easier when the problem arises. The book deals with the subject of industrial sickness right from the stage of identification to rehabilitation and follows up the nursed units till they attain normal stature. It emphasises on constant and continuous watch on the transaction in the accounts of borrowers with the banks. In other words, the study conducted by them is concerned with how to tackle the problems of industrial sickness from bankers’ point of view.

Mathur<sup>15</sup> made an attempt to identify the major causes of sickness in the small scale industries along with the contributory factors of the entrepreneurs and the commercial banks in the growing incidence of sickness in the small scale industries. His study found that the quality of management of advances by banks to the industrial units plays an important role in preventing the sickness in the small scale sector and in insuring that the units work on sound lines on an on-going basis.

Bhatia and Batra<sup>16</sup> in their book titled “Management of Sick Industries” had collected several papers contributed by experts in the field of industrial sickness. An effort was made in their book, to meet the requirements of Indian industries in managing and monitoring the industrial sickness.

Sahu and Mishra<sup>17</sup> in their book entitled “The Critical Appraisal of Industrial Sickness” thoroughly examined the nature of sickness in Indian industries and outlines a model to predict sickness in Indian corporate sector. The book also presents a clear and systematic approach to understand the symptoms and causes of sickness in industries.

Panda and Meher<sup>18</sup> made a study, which was interdisciplinary in character, exposing the problems of sickness in the SSI sector from multi-dimensional angles. The study took into account both economic and sociological factors

that hinder the healthy functioning of the SSI units in an industrially underdeveloped state like Orissa by undertaking intensive field study at one of the oldest and largest industrial estates of Orissa. Factors like improper project planning, entry of unmotivated and inefficient entrepreneurs, lack of demand for the product and infrastructural bottlenecks play a major role in bringing sickness to the concerned units are the major findings of their study.

Singh<sup>19</sup> in his Ph.D. thesis entitled "Industrial Sickness in Manipur – A Case Study of Small Scale Industries" tried to reveal the factors which have actually caused sickness in small scale industries in Manipur. Besides this, the study had accomplished other research objectives like (a) to prevent various conceptual issues of industrial sickness, (b) to highlight the perspective, and (c) the alternate policy measures that have been offered and needed to be taken earnestly to arrest sickness.

Gangwal<sup>20</sup> analysed the causes of 119 sample sick SSI units financed by the Rajasthan state financial corporation and found that the broad reasons of sickness were delay in project implementation, the problems pertaining to the management of the functional areas of production, marketing, finance and personnel and external problems.

Shanmugham<sup>21</sup> studied 50 cases of engineering units in the SSI sector in Coimbatore, started by relatively young entrepreneurs and found that mainly the following problems affected the small entrepreneurs:

- (i) Poor financial planning and management.
- (ii) Poor collection of receivables (54%).
- (iii) Excessive stock level (10%)
- (iv) High competition.
- (v) Power units.
- (vi) Lack of sufficient orders.
- (vii) Erratic supply of raw materials, and
- (viii) High incidence of sales tax and excise duty.

National Census of Small Scale Industries<sup>22</sup> found that out of the 2,99,186 units registered with the state district industries,

as many as 32,315 or 11 per cent were not traceable, another 66,161 or 22 per cent were permanently closed. The closed units were grouped into *five* categories:

- (a) Cumulative mortality of units;
- (b) Units which have changed their addresses;
- (c) Units which were closed down permanently;
- (d) Units which could not be located because of incomplete addresses;
- (e) Units not in existence and units who have misutilized raw materials and other facilities.

### **1.15 Need of the Present Study**

Manipur, in fact, is one of the industrially backward states of India. By nature, it is quite different from the rest of the country with regard to topological features, religio-political compulsions, socio-cultural imperatives, infrastructural bottlenecks, natural resources endowments, etc. The most alarming situation of industrial economy of this state is the high incidence of industrial sickness, particularly in small scale industries sector. But, inspite of having such a high magnitude of sickness in small scale sector which is hindering upon the already weak industrial economy of the state, yet there has been no effort from any quarter, whatsoever, to involve a deeper probe into this chronic problem. It is, then, quite obvious that increase in industrial sickness results in human suffering due to loss of employment, wastage of scarce natural resources, blocking huge hard earned investment without any returns and a bad industrial image for the state in particular and the nation in general.

The present study tried to analyse the issues of industrial sickness, socio-economic origin of sick units, causes and remedies of sickness etc. Given the seriousness of the problem which has vitiated the whole industrial environment, there is an immense need to evolve a detailed research holistically into the problem of industrial sickness with a purpose to unfold the malady of sickness in small scale industries for framing

pragmatic policy implications. The present study "*Industrial Sickness in Manipur – Causes and Remedies*" seeks to probe objectively the factors that are responsible for causing industrial sickness in the state so that remedies can be searched for these causes in order to have a sound industrial economy in the state.

### **1.16 Objectives**

The studies undertaken so far in the field of industrial sickness in Manipur have not highlighted fully the causes of industrial sickness in the state. Hence, the present study has been undertaken with a view to unearth the real factors that are responsible for sickness of modern small scale industries in the state. The study incorporates the following objectives:

- (i) To study the overall industrial sickness in Manipur.
- (ii) To study the socio-economic origin of sick units in the state.
- (iii) To examine the various causes of industrial sickness in the state.
- (iv) To suggest suitable remedies for avoiding industrial sickness in the state.

### **1.17 Research Design**

As a matter of fact, industrial sickness in the small scale industries in Manipur is an area of great concern nowadays. With an ever increasing population of the state and less scope for getting jobs in public sector, these small scale industries are the only hope of providing a source of livelihood to the local populace. In these present days of down-sizing and right-sizing in government jobs, a proper study of industrial sickness and finding its measures to stop it will be the only means of empowering the people for economic development.

In the selection of the sample units for the purpose of the study, those with 5 years' existence and not working at present have been taken for study. It had also been ensured to give equal representation to different types of industries and only

those sick units earlier registered with Industries Department as an SSI have been selected for the study.

The data for the study have been collected mostly from the primary sources. An elaborate questionnaire was prepared for administering among the entrepreneurs. For the purpose of conversing the questionnaire one entrepreneur for each industry has been selected irrespective of the fact that some are partnership firms and some are proprietorship firms.

Apart from these, secondary data has also been collected from different Government Departments like Department of Commerce and Industries, District Industries Centres, Department of Economics and Statistics, Manipur Industrial Development Corporation, etc. The data so collected has been tabulated and analyzed properly with the appropriate statistical tools and techniques.

### **1.18 Research Questions**

1. Entrepreneurship development in Small Scale Industries in Manipur is very slow and far below than the all India average.
2. The Industrial growth in the state has been on low growth path mostly due to more industrial failures in the small scale sector.
3. Lack of demand for products, scarcity of working capital and above all, infrastructure bottlenecks are the main factors for industrial backwardness in Manipur.
4. Improper project planning, lack of industrial conception, absence of entrepreneurial class adoptive to competitive and changing market forces and corrupt bureaucracy has also added to the problem of sickness in small scale industries in Manipur.

### **1.19 Scope and Limitations of the Study**

The researcher faced many constraints in the study in obtaining accurate data from the sampled respondents. The researcher made several visits to the respondents and their units, collected

reliable and accurate data. In fact, during this study, the researcher faced many problems which have been overcome to the desired level. The main problem faced was due to the weak data base of the industrial sector in the state, sometimes, it is totally missing. Though elaborate and different questionnaires are designed with simple questions for the entrepreneurs, many of the respondents were not able to respond properly either because of illiteracy and lack of proper records or present law and order problem where everyone is afraid to disclose their financial position in a volatile situation of Manipur.

In short, the study conducted has the following scope and limitations:

- (i) The scope of the present study has been confined in the sampled units of nine districts of Manipur. Five sick units each from Imphal East, Thoubal, Bishnupur, Senapati, Tamenglong, Ukhrul, Chandel, Churachandpur Districts and ten sick units from Imphal West District have selected for the present study.
- (ii) Field survey was conducted during June-September, 2007.
- (iii) As the findings and conclusions of this study are based on data collected from the selected entrepreneurs in the study area, it cannot be generalised for the entire state.
- (iv) The methodology followed and tools employed in the analysis of the data involved certain merits as well as demerits of their own and also reflect the limitations of the data base.
- (v) All the related data are gathered from the selected entrepreneurs directly. There were no proper records maintained at the individual or firm level. Thus the information given by the sample units may not be accurate. However, utmost care was taken by the researcher to ensure accuracy, by adopting cross checking methods.
- (vi) Non-cooperation and unwillingness of the respondents

as well as the government officials and some indifferent attitudes of the concerned officials are also some of the important limitations of the study.

## **1.20 Presentation of the Study**

The study has been presented in five chapters: Chapter I deals with the concept of small scale industries and its relationship with economic development, the emerging trends of small scale industries, industrial sickness, and objectives of the study and research design. Chapter II provides the socio-economic origins of sick units. Chapter III analyses the different causes of industrial sickness in Manipur. The remedies of industrial sickness in Manipur are discussed in Chapter IV which is followed by Chapter V dealing with conclusion and suggestions of the whole study.

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