

# Suitable Mechanism for Revival of Sick MSMEs

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## Abstract

In pursuit to create a vibrant MSME sector, Ministry of MSME, Government of India has taken multi-pronged strategy. The focus is not only on the issues related to starting and growth of MSMEs but ensuring that they sustain their business. However, due to various reasons, MSMEs are prone to sickness. There has been an increase in MSME sickness. There have been internal causes relating to planning, implementation & production and external causes like infrastructural bottlenecks, finance constraints, marketing constraints, and other extraneous factors. Industrial sickness affects not only the owners, employees and creditors but also causes wastage of national resources and social unrest. There have been a few attempts to address this issue. However, the need to devise more robust mechanism for dealing with sick MSME units was felt so as to make suitable arrangements for detecting symptoms of industrial sickness at an early stage and take corrective actions to prevent sickness.

**Keywords:** MSMEs, Industrial Sickness, Mechanism

## Introduction

Economic development of the nation much depends up on the industries. Without industries, economic development of our country is not possible. Economic planning becomes less risky with a strong industrial base. It helps to boost and attract industries in a backward developing economy like India. Small scale industrial (SSI) sector has been a prime contributor to the overall growth of the industrial sector in India.

Micro and small scale industries sector has emerged as an active sector of the Indian economy. This is because they provide immediate large-scale employment and have a comparatively smaller market to be economic, they need lower investments. There are 4,88,56000 MSME units in India, in which 2,00,18000 units are in rural

India and 2,88,38000 units are in urban India. These units are spread all over the country producing around 6000 products and services. The value of the products which they are producing is Rs. 18.09 crores with the investment of Rs.13.63 lakh crores. This sector is providing employment to more than 11.14 crore persons. 40 percent of the employment opportunities which an organised sector providing is from this sector only. The contribution of MSMEs in GDP through manufacturing sector is 7.04 percent and including service sector it is 37.54 percent. But there is dearth of professional managers, entrepreneurs, and intrapreneurs to manage them in the horizon of global competitiveness, which leads to industrial sickness. Industrial sickness is the key event of modern industrial age. It needs Indian orientation and to be enriched with the Indian culture and traditions. Therefore, there is a need to study about industrial sickness and analyse the causes and s suitable mechanism for sick MSMEs.

Industrial sickness relates to uneconomic functioning of industrial units. It is related to the difficulties that arise during the normal working conditions in the industries. It may be due to several internal as well as external effects, the sick unit may not able to work accordingly - thereby unable to earn the reasonable profit. These inabilities reflect the workflow of the firm and owners of the firm are not in a position to pay fair wages to the labour and dividends to the shareholders. The industrial sickness is harmful to all the segment of the industry. It is harmful to employees, corporate sector and the entire economic system.

Now India is in the process of restructuring its economy, with aspirations of elevating itself from its present desolate position in the world. Hence the need to speed up its economic development is even more imperative and it witnessed the positive role that industrialisation has played in the rapid economic growth of the country. Thus, we have taken up this study to know the challenges faced

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by MSMEs as a main objective. The other objectives are as follows.

1. To know what is industrial sickness.
2. To find out the causes and remedies of industrial sickness.
3. To identify the number of sick units in India. and
4. To suggest measures for the revival of sick MSMEs.

## Meaning and Definition of MSMEs

MSME stands for micro, small, and medium enterprises. According to the broad classification, an enterprise where the employees' strength is not less than 50 and not more than 249 is called as medium enterprise. In the case if it varies in between 10 to 49 it is called as small scale Enterprises, finally if not less than two and not more than nine employees are working it is called as micro Enterprises. In addition to the classification on the bases of employment, it can also be classified on the basis of investment. The classification details are discussed in Table 1.

**Table 1: MSMEs based on Investment**

Category	Manufacturing Sector (Investment)	Service sector (Investment)
Micro Enterprises	Up to Rs.25Lakhs	Up to Rs.10Lakhs
Small Enterprises	Rs.25Lakhs to 5Cr.	10Lakhs to 2Cr.
Medium Enterprises	5Cr. to 10Cr.	2Cr. to 5Cr

Source: Annual Report 2012-13 Government of India.

According to the data shown in Table 1, the investment is different for micro, small, and medium enterprises. Further it is different in each category for manufacturing sector and service sector. In manufacturing sector the maximum investment limit is Rs. 25 lakh and in the case of service sector it is Rs. 10 lakh. Regarding small enterprises the investment limit varies from Rs. 25 lakh to Rs. 5 crore in manufacturing sector, it varies from Rs. 10 lakh to Rs. 2 crore in service sector. If investment in manufacturing sector varies from Rs. 5 cores to Rs. 10 crores, and in service sector from Rs. 2 crores to Rs. 5 crores, it is called medium enterprises.

The small scale industrial sector is considered as the crucial industrial sector of India. It forms a dominant part of Indian industry and contributing to a significant

proportion of production, exports and employment. Though this sector is playing a vital role in developing the Indian economy but still it is facing a tough resistance due to high level competition from large scale industries. Further, this sector is suffering with the major causes like low withdrawal of subsidy, challenges on product standardisation, anti dumping policy, lack of infrastructure, TQM etc. It is due to the causes in MSMEs, the industries are converting into the form of industrial sickness.

## Industrial Sickness

An industrial company is said to be sick if it is registered under the Indian Company Act, 1956 for not less than five years and is receiving losses constantly at the end of every financial year. It means when a firm receive losses constantly and it is not in the position to handle the business operations accordingly. Since a decade or two, industrial sickness became the major cause for opening of large number of new units. It has been seen in all the forms of business organisations whether it is small scale, medium scale or the large scale organisations. Especially in India, it has become the matter of concern that is affecting the industrial sector directly or indirectly and also affecting the national growth.

## Definition of Industrial Sickness

As per the Reserve Bank of India (RBI), the industrial sickness is defined as incurring losses to the industry for the current year and in the upcoming year. The units have an imbalance financial structure and the current ratio is less than 1:1. Further, the small scale industries are considered as the sick units due to several reasons. It is considered as sick unit because it has failed to generate the profits in the previous year or has been receiving continuously losses to the firm. Further, it may not be in the position to generate profits for the current year too and has crossed the four default installment of interest of the banks. According to the Development Commissioner, if a firm has the less than 50 percent of net worth and the capacity utilisation is also less than 50 percent during the last five years, further, if it remains closed for a period of more than 6 months then it is called as the sick unit.

## Industrial Sickness in India

Sickness in small scale industries is a gradual process and does not develop suddenly. In the initial stages, it can be found in the form of defects and mistakes.

These defects and mistakes are converted into the form of irregular earnings and unsatisfactory turnovers. Not only that, it effects the production, sales and, also the overall profitability. It has always a negative effect on Indian economy. The annual growth rate in small scale industries is declining day by day. Till 2010 it was 18 to 20 percent. Later it declined to single digit. According to the estimation in the year 1976, nearly 300 units in the medium and large scale sector were closed. About 10% of

4 lakhs units were also reported to be ailing. This situation remained same in the next decades. Till 1986, the sick units increased up to 1,47,740 and the bank credit was Rs. 4,874 crore.

As per Reserve Bank of India (RBI), till March 2015, there were 5,16,619 sick MSMEs. The state-wise details of sick micro, small, and medium enterprises (MSMEs) and outstanding loans for the three years i.e., March 2013 to March 2015 are given in Table 2.

**Table 2: State/ Union Territory-wise Position Regarding the number of Sick Units and Loan Outstanding for the Three Years from 2013-2015 (No. of units in actual, Amt. in Rs. Crore)**

State/ Union Territory	Mar-13		Mar-14		Mar-15	
	No. of Units	Amount O/s	No. of Units	Amount O/s	No. of Units	Amount O/s
A & N Islands	68	1.59	98	6.48	111	35.54
Andhra Pradesh	12461	1268.73	42618	2437.29	43437	2429.05
Arunachal Pradesh	75	8.04	158	9.72	345	14.17
Assam	1318	201.90	5334	332.49	4500	511.71
Bihar	5705	395.41	16156	371.17	12194	433.61
Chandigarh	659	257.27	1349	267.29	1725	911.75
Chattisgarh	3002	89.70	4814	159.47	6191	229.84
Dadra Nagar Haveli	22	1.82	91	8.63	61	9.51
Daman & Diu	25	3.74	19	39.46	36	4.47
Delhi	2845	1047.38	4658	2040.68	6066	2905.52
Goa	194	30.63	1354	110.80	2329	200.43
Gujarat	20615	836.56	48304	1790.38	49003	2601.02
Haryana	3351	468.10	9308	711.90	10867	745.83
Himachal Pradesh	1954	236.20	2242	247.64	2075	189.45
Jammu & Kashmir	1327	78.17	2188	184.42	2332	276.65
Jharkhand	5031	201.47	8234	527.68	11095	595.10
Karnataka	15845	939.84	34212	1294.96	38438	1256.69
Kerala	8710	210.65	21807	487.28	26248	716.11
Lakshadweep	0	0.00	5	0.13	0	0.00
Madhya Pradesh	11291	504.86	17678	509.40	18151	607.60
Maharashtra	32388	3137.91	43411	4598.99	50006	4837.61
Manipur	148	1.70	353	9.65	3688	47.88
Meghalaya	69	2.07	158	7.01	152	7.80
Mizoram	159	5.44	48	5.58	25	2.65
Nagaland	147	11.13	455	22.40	468	15.71
Orissa	11775	436.03	18337	748.88	18866	914.62
Puducherry	190	7.68	1913	115.14	1635	59.66
Punjab	3747	765.47	6575	1035.59	13326	1847.04
Rajasthan	20343	289.08	27791	557.58	23226	553.48
Sikkim	63	4.09	215	31.59	66	2.60
Tamil Nadu	23468	1814.47	44121	2844.41	44719	3650.73
Tripura	16	0.15	2166	44.85	5196	259.07
Uttarakhand	4572	179.69	15810	1848.16	3446	195.96
Uttar Pradesh	19104	1570.86	63355	6847.38	77761	2494.98
West Bengal	11517	1632.06	23062	2615.43	38835	3814.33
Total	222204	16639.89	468397	32869.92	516619	33378.17

**Source:** provisional data compiled by RBI, Press Information Bureau Government of India, Ministry of Micro, Small & Medium Enterprises, Revival of closed/sick MSME Units, Revival of closed/sick MSME Units, 23-July-2015 17:35 IST

The number of ailing small scale units, according to RBI data rose from 222204 in March 2013 to 516619 in March 2015, and the outstanding amount rose from Rs. 16639.89 crore to Rs. 33378.17 crore in March 2015.

### Causes for Industrial Sickness

The number of sick units has been increasing year after year, and the malady, if not checked, might erode the roots of industrialisation in the country, which is a vital component of the economy of the country. There are many reasons that are contributing in the rising industrial sickness. These can be divided into two forms. They are internal reasons and external reasons. External reasons are many and it varies from firm to firm. Few important are the inflation, currency deflation, rising costs, expensive imports, lack of financial assistance, lack of consistency in profitability etc. The internal reasons are also affecting the MSMEs. The internal reasons are as follows.

- (a) Management deficiency.
- (b) Inadequate and timely availability of finance.
- (c) Outdated technology, and
- (d) Marketing problems.

#### Management Deficiency

It could be said that management deficiency is one of the biggest reasons for poor performance and sickness of small scale units. The new entrants in the field of small industries in many cases did not have any prior training or background in management of their enterprises and were adverse to innovations and changes. In the beginning of our industrial development era, this problem was not so critical but with growing sophistication and modernisation of market requirements for the items produced by the small scale sector, it has become very important for small entrepreneurs to employ modern methods of management.

#### Inadequate and Timely Availability of Finance

Financial inadequacy is also reported to be one of the most important causes leading to sickness of small-scale units. Undoubtedly, the government has extended a number of incentives for the growth of small industries and some people feel that these have had negative effect on the small industries. According to them in order to obtain more and more finance and concessions, the small

entrepreneur often runs from one agency to another and consequently, cannot concentrate on his industry.

#### Outdated Technology

Technological innovations and changes are taking place in industrially advance countries of the world and small-scale industries in those countries but not in India.

#### Marketing Problems

Last but not the least, the important factor causing sickness is the inability of small industries to market their products in a systematic way. This is another part which always affects the health of any sector as well as SSI. It is well known that small-scale industries are mostly one man show or a family business and professional marketing is often not practiced in such units. However, it may also be stated that during the last decade some of the progressive small scale industries have also realised the need for scientific marketing methods and have organised their own marketing networks on regional and national basis.

#### Need for Revival Programme for Sick MSMEs

A large amount of scarce resources has been swallowed by sick units of MSMEs. These sick business units needed to be revived and the assets and infrastructure are to be evaluated from the sickness. There is no doubt that the enterprises would have had some weak areas which could have been the cause for the sickness. But still, these sick units are needed to be revived and reconstructed to re-birth the MSMEs. The revival of sick unit is necessary due to several reasons. It is therefore, we need to understand the need for revival programme for sick MSMEs. It can be understood with the following socio-economic objectives.

- (a) The business of the sick unit may be in a sector that is vital to the economy. Winding up these businesses may lead to the ill effects on other socio-economic factors.
- (b) Many ancillary units may be dependent on the unit that has gone sick. Therefore, it is important to revive the sick units to reduce the impact of it on MSMEs.
- (c) Another issue is the non-performing assets. Banks and financial institutions are facing the major problem with the industrial sick units. They are grant-

ing the loans and advances to the MSMEs, and in turn, they are neither receiving the principal amount nor the interest amount of that loan. Though banks and financial institutions are supporting the central revival programmes, but still they are restricted towards the Reserve Bank of India's guidelines.

Thus because of the above reasons the government has drafted the revival plans for the sick and loss making MSMEs. Few among them are as follows.

### Revival of Sick MSMEs

The government of India introduced Make in India concept to provide employment to the youth. But unless the government takes some supportive actions for the revival of MSMEs they may not be successful in the concept of Make in India. The government of India has formulated various schemes and policies in support of this sector. Few among them are as follows. The government has formulated various schemes like:

- (i) Credit Guarantee Fund Scheme, Credit Linked Capital subsidy scheme, Technology Up gradation Scheme etc. in 2000.
- (ii) National Manufacturing Competitive Programme in 2005, and
- (iii) Public Procurement of goods Produced Programme in 2012.

Apart from these the government has also taken the following steps for revival of closed or sick MSMEs.

- (a) The revised guidelines for rehabilitation of sick MSEs were issued on 1<sup>st</sup> November, 2012 by RBI.
- (b) Ministry of MSME has issued a 'Framework for Revival and Rehabilitation of MSMEs' vide a Gazette Notification dated 29.05.2015 for the purpose of facilitating the promotion and development of MSMEs.
- (c) The Government of India has also introduced the Small Industries Development Bank of India (SIDBI) in the name of scheme called "Management/ Restructuring of Stressed Assets and Rehabilitation Scheme for MSMEs". This scheme has provided the relief and concessions to the sick industries in various forms. It has also provided the additional financial assistance for revival of MSME sector.

### Conclusion

1. On the basis of study conducted, we have drawn the following conclusions.
2. Industrial sickness is the major concern in the MSMEs. It is related to the uneconomic functioning of industrial units.
3. In India, many industries are suffering with this cause since last decade. This is effecting the economic growth and development of India.
4. As per Reserve Bank of India (RBI), till March 2015, there were 5,16,619 number of sick MSMEs.
5. The number of sick units has been increasing year after year and the malady, if not checked, it might erode the roots of industrialisation in the country, which is a vital component of the economy of the country.
6. The main reasons for industrial sickness are management deficiency, inadequate and timely unavailability of finance, outdated technology, and marketing problems.
7. The government of India is making all efforts to curb the downfall of MSMEs by providing the policies, schemes and financial support and building and promoting their business operations.

### Suggestions

On the basis of the conclusions drawn from the study, we offer the following suggestions.

- (i) There is a need to create a database particularly for this sector.
- (ii) It is necessary for the government to educate the young and women entrepreneurs about the entrepreneurship by conducting some training programmes.
- (iii) Corporate experts should take some corrective actions or the well-being of these MSMEs.
- (vi) There is a need for the government to establish high-tech industrial parks for this sector.
- (v) The government can think of providing electricity at subsidised rate for this sector. Particularly for this the government can take the support of state governments.
- (vi) It became necessary for the government to reactivate the closed micro and small enterprises.

(vii) If the government takes the above steps effectively then only it is possible to get success in Make in India concept, providing employment and increase GDP rate.

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