

Industrial Sickness in MSMEs-A Case Study of Growing Cities, Hubballi-Dharwad in Karnataka.

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ABSTRACT

Sickness in Micro Small and Medium Enterprises (MSMEs) has become a major problem and greater concern to both entrepreneurs and the government at both state and central level. The strength of the small industrial sector, by and large, determines the soundness of the economy. A developing economy like India cannot afford the growing sickness in industries as it results in a colossal wastage of physical, financial and human resources. In the presence of the resource crunch, the industrial sickness becomes all the more an alarming problem. The incidence of sickness has been growing in India during the last decade. Not only in traditional industries like cotton, textiles, jute and sugar have been affected with sickness, but also it has affected some other important manufacturing MSMEs like engineering, chemicals, and valves, steel, electrical and service industries. The study is significant as it identifies the real problems of sickness and measures to overcome the problems of MSMEs in twin cities, Hubballi-Dharwad in Karnataka.

Key Words: MSMEs, Sickness, Production, and Marketing

Introduction

The Manufacturing and Service enterprises are classified as Micro, Small and Medium Enterprises (MSMEs) as per MSMEs Act 2006, and defined according to their annual turnover. Now in India approximately 36 million units provide 120 million employments. It has major role in socio-economic development like regional rural development. It controls the concentration of wealth among peoples and checks the rural migration. But sickness in MSMEs has become major problem to entrepreneurs as well as government. The study area of twin cities, Hubballi-Dharwad is not out of this problem. The high incidence of sickness in MSMEs sector is largely attributed to the factors like Marketing deficiencies, Faulty planning of the project, Operational bottle necks, Infrastructural inadequacies, Management weakness, Labour Problems and Credit and Financial Stringencies.

The impact of sickness in MSMEs sector is severe on employment since MSMEs are largely labour intensive. Hence early detection of symptoms of sickness is of great importance before the units became almost defunct. Measures to revive and to prevent closure of units need to be taken by the entrepreneurs, the government and the financial agencies. The present study is aimed at studying the different aspects of sickness of the Micro, Small and Medium Enterprises in Hubballi-Dharwad twin cities in Karnataka.

Industrial companies Act 1985 has defined sick industrial unit as a company which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in that financial year and in the financial year immediately preceding it.

Industrial sickness is growing at a rate of 28% and 13% in terms of number of units and outstanding amount of bank credit respectively. It is reckoned that as of today there are more than 2 lakhs sick units with outstanding bank credit of over Rs. 7000 crore and nearly 29000 units are added to sick industries list every year.

Majority of sick units are retrievable in this process of revival of sick units. The role of Government the financial institutions and the industry associations are crucial.

Measures Initiated for the Rehabilitation of sick units:

The Industries (Development and Regulation) Act 1991 provides a provision for the takeover of a sick unit by the Government of India. Before resorting to take over other alternatives like rehabilitation through the concerned State Government and financial institutions or for the merger of a sick unit with a healthy unit could be explored.

For the sick units in Micro, Small and Medium Enterprises sector separate facilities are available. State finance Corporation and commercial banks will be asked to devise scheme for the rehabilitation of sick units in the small scale sector and the assistance given by them for revival of such units will be eligible for refinancing by the IRBI at the concessional rate of interest.

The strength of the industrial sector, by and large, determines the soundness of the economy. A developing economy like India cannot afford the growing sickness in industries as it results in a colossal wastage of physical, financial and human resources. In the presence of the resource crunch, the industrial sickness becomes all the more an alarming problem.

The incidence of sickness has been growing in India during the last decade. Not only some of the traditional industries like cotton, textiles, jute and sugar have been affected with sickness, but some other important industries like engineering, chemicals, rubber, cement, electrical and paper have been affected.

Objectives of Study

The study was conducted with the following objectives.

- i. To assess the incidence of the sickness in the MSMEs industrial units in Hubballi-Dharwad twin cities.
- ii. To identify the causes of industrial sickness in the MSMEs units of study covered by the area.
- iii. To assess the impact of sickness among the MSMEs units in different areas like production, Marketing, employment, bank credit etc.,
- iv. To analyse the initiated measures indicated by Banks and others to overcome the problems.
- v. To suggest measures for streamlining the management to overcome the problem of sickness of the study unit.

Methodology of Study

The study is based both on primary and secondary data relating to industrial sickness in general and MSMEs units in particular.

Data Base

The primary data is collected through a comprehensive and pretested questionnaire. The questionnaire is used and information is obtained through personal interviews with the respondent units in the study area. The secondary data have been obtained from published sources like publications, research papers and other institutions. Dept of small scale Industries of the state Government District Industries Centre, reports on the MSMEs units by the various committees appointed by the Government of India and other publications of the state and central Government relevant for the study.

Selection of the Study Area

The studies cover the twin cities of Hubballi-Dharwad in Karnatak, it is a fast growing city in the northern part of Karnatak.

Selection of Study Units

The study covers a total number of 50 sick small scale industrial units in Hubballi-Dharwad twin cities. The 50 selected units consist of 10 sick MSMEs units each from the following 5 industrial estates. Data analysis and statistical tools are used. The data obtained from the field survey has been compiled in proper tables for deriving appropriate inferences and conclusions. Simple statistical tools like percentages, averages, etc have been used while deriving generalizations and conclusions.

Summary of Findings, Suggestions and Conclusion

This chapter provides a summary of findings and conclusions derived from the field survey. Based on the findings and conclusions a few suggestions have been offered for future improvement.

- Majority of the sick units of our study were involved in engineering works. A small number of units were manufacturing plastic products. A very small number of sick units (2-4) were involved in manufacturing of motor pump set generators, chemical products, food products and others.
- It is found from the data obtained from the sick MSMEs units that the units had made maximum investment in plant and machinery as mentioned by the respondents followed by investment in buildings, vehicles and other fixed assets.
- The production value of the sick units prior to their becoming sick was the highest in 2015-16. The unit's lowest production value was during 2018-19. The production value has declined continuously from 2015-16 till 2018-19.
- The impact of sickness on employment of labour is observed among the respondent units. The number of labour employed in the units has gone down after the units became sick. The number of unit's lower number of labourers (1-3) has gone up while the number of units with higher employment of labour (4-6) has gone down. The trend is more pronounced in relation to units with highest number of laborers (7+labourers). This trend is observed in case of both skilled as well as unskilled workers in the sick units covered by the study.
- Banks have been the maintaining for the working capital requirements of the respondent sick MSMEs units. Maximum amount of working capital (48.38%) required by the respondent units has been met by the banking institutions the second important source of working capital for the sick respondent MSMES units has been their own funds (28.56%). It is significant to note that these sick units had also depended on private money lenders

for their working capital needs (10.33%). This indicates that the banks could not meet adequately the needs of working capital of these units. These units have also resorted to other sources (12.73%) for their working capital requirements.

- Majority of respondent sick MSMEs units (78%) have borrowed loan from finance at 14% and more interest rate a lesser number of respondent sick units (18%) had borrowed at 11-13% interest while 3 respondents (6%) had borrowed at lower rate of interest at 10% or less.
- The responses of the sick MSMEs units indicate that maximum numbers of 24 respondents (48%) were provided loan with 60 installments for repayments while 15 respondents (30%) were given 48 or less installment for repayment a small number of 7 respondents (14%) were provided loan with 72 or more number of installment. It is surprising that 4 respondents were not provided with installment facility.
- The study has revealed that maximum number of 44 respondent sick units (88%) had obtained the benefit of loan subsidy from the government while small number of 6 respondents (12%) had not availed of the loan subsidy.
- It is revealed by 12 respondent units that the Government had officially recognized them as sick while the rest of the 38 units were not given official recognition as sick units. Out of 12 sick units 8 were declared as sick by the Government for the last one year while 3 units were declared as sick for the last 2 years one unit was declared as sick for the last six months.
- Majority 23 sick units (46%) have not faced shortage of raw materials. However 13 respondent sick units (26%) faced 10% shortage of raw materials while 12 respondents (24%) faced 11-20% of shortage of raw materials. A small number of 2 respondent sick units (4%) faced shortage of more than 20% shortages of raw materials.
- Power shortage of 21.30% was faced by maximum of 32 sick units (64%) while 10 sick units (20%) faced 31% or more of shortage of power. A small number of 6 units (12%) faced 20% or less of shortage of power while 2 units did not face power shortage.
- Shortage of 20% of working capital was faced by maximum of 31 sick units (62%) while 14 sick units faced 21-30% of shortage of working capital and 2 units (4%) faced maximum of 31% or more of shortage of working capital shortage of working capital was not faced by 3 sick units (6%).
- Short fall of expected demand of 20% or less was faced by maximum of 24 sick units (48%) while 16 sick units faced shortage of 21-30% of expected demand. A lone sick unit (2%) faced shortage of 31% or more of expected demand shortage of expected demand was not faced by 9 respondent sick units.
- The Government's help through DIC was used by 22 units, SIDC help was availed by 1 unit, state Governments help was availed by 6 units, central governments, help was taken by 2 units, DIC and state Governments help was taken by 1 unit. The responses of the Government agencies in providing help for revival of sick units was been positive as indicated by 24 respondents. However 8 respondent sick MSMEs units found the response negative.
- A majority of 30 respondent MSMEs sick units have not taken help from KSFC in their efforts for revival of their units. However 19 respondents have obtained help from KSFC. KSFC has given proper guidelines for

revival for 8 sick units financial help is given to 7 units. Help in proper planning of revival is given to 1 unit while 2 sick units have obtained low interest loan from KSFC and 1 sick unit is given loan subsidy.

Industrial Reconstruction Corporation of India was approached by only 6 sick MSMEs units for help in their revival process a large majority of 43 units have not approached the IRCI for help. The Board for Industrial finance and reconstruction came to the help of 3 sick MSMEs units for revival while 46 sick MSMEs units were not given any help by BIFR.

Suggestions for Improvements

1. The Government policies relating to compulsory contribution towards provident fund scheme and employers state insurance scheme by the MSMEs units should be relaxed as the capacity of these units is inadequate to comply with such stipulations, particularly in the initial stages of commencement of their business.
2. Shortage of raw materials has led to a few MSMEs units to underutilization of their production capacity and to their consequent sickness. There is need for a more active role by the DICs and SISIs in this direction.
3. Power shortage has been another factor causing loss of production leading to sickness to some of the MSMEs units. There is a need for ensuring adequate power supply to these units financial assistance should be extended to these units for installing their own captive power generation units.
4. Marketing problems have led to sickness of a good number of MSMEs units. Major marketing difficulty encountered by these units relate to sales to Government departments stipulations about the EMD (Earnest money Deposit). It is necessary to relax the amount of EMD and the procedures connected with the compliance with EMD regulations.
5. The financial institutions should not initiate actions towards the closure of the units or auctioning the machinery as soon as the MSMEs units become sick and are in the process of revival
6. It is necessary that a period of 5 years moratorium for sick units be announced to enable them to be revived the guide lines given by the reserve Bank of India regarding rehabilitating measures should be strictly followed by the banks and financial institutions.
7. There is need for constituting a joint committee preferably with DIC General Manager, Lead Bank officer, SISIs officer and the concerned bank officer to determine the sickness of the units and the decision of the committee should be binding on the financing bank.
8. The present formula of the RBI for determining the working capital facility should be reviewed taking into consideration the present condition like the escalation in cost due to hike in prices of raw materials, labour etc.

Conclusion of Study

Sickness in MSMEs units is global phenomena the degree of sicknesses In India is high due to socio-economic and political reasons. During survey we found that in Hubballi-Dharwad twin cities a large number of MSMEs units declared as sick units mainly due to production marketing and financial problems. It is learnt that MSMEs units are facing acute shortage of raw materials and laborers and hence they are in deep water. The view of study and the above findings It is found that management entrepreneurs and government are making all efforts to strengthen the MSMEs units and make them competitive and enable them to face the stiff competition existing in the market because MSMEs units play vital role in accelerating the process of industrialization and the rate of economic development of our nation.

The state and central government are offering many schemes and have organized many institutions to help the entrepreneurs in regaining the lost glory and strength. Similarly management is also putting its head and heart in solving the problems and places the firm to put successful footings. Entrepreneur are not silent they are also making intensive efforts to strengthen the MSMEs units with the support of government and management. Thus, we draw the inference that sickness is not the problem for MSMEs units and strengthen the hands of organizers to run the MSMEs units successfully and stay in the competitive market in long run also. In this way sickness has solution and suitable solution strengthen MSMEs units because sickness is neither curse nor permanent issue.

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