Industrial Sickness in Jharkhand

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ABSTRACT:

Jharkhand the 28th State of the Indian Union was brought into existence by the Bihar reorganization Act on 15 November 2000. The state has immense Potential for industrialization with large deposits of Minerals amounting 40 percent of the total mineral wealth of the country. It is the sole Producer of coking coal, uranium and pyrite. Jharkhand rank first in the production of coal, Mica, Kynite and Copper in India. At present there are about 3000 small scale Industries in Jharkhand , Mainly Dependent on sponge iron and steel plants in the industrial areas of Ranchi, Adityapur (Near Jamshedpur) Bokaro and Dumka. However most of them have been sick for quite sometime. These industries have declined in their places and modern industries have come up as a big player. They are considerably advance in the fields of technology and managerial skills. This has enabled the country not only to operate highly complex and sophistical industrial enterprises, but also for their planning, design and construction. Jharkhand is no longer exporter of only mineral goods and manufactured items but together with traditional items. However there is also the negative side of the picture. There have been shortfalls in the industrial production from the targets in recent time during worldwide recession.

The frame work of the article was motivated by the concern for revival of sick industries because a state like Jharkhand has a limited resources and vast population cannot afford the loss of Production, Income and Employment. To examine the problems and to meet them with a view to eliminate the strains on the pace and acceleration of industrial development an attempt has been made through an article to identify industrial sickness trace out its causes and assess the dimension assumed by it. Then after examinating the role of government, R.B.I., Major Financial Institutions and Banks in detail.

Literature review

Although the term "Industrial Sickness" is comparatively new the phenomenon has been affecting industry ever since its birth despite several policy guidelines on sickness in industry, the term sickness is yet to be properly defined. There is no universal acceptable definition of industrial sickness because of the wide diversity in the nature of operations and activities of industry from time to time. Due to absence of any precise definition different vested interests have defined the term according to their needs. To a layman a sick unit is one which is not healthy. To an investor it is a unit which is making losses and hearing the brink of closure. To the Government it is a unit which is on the verge of collapse, rendering sizeable section of the labour force jobless. A study term of the

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State Bank of India defined sick unit as one which fails to generate internal surpluses on a continuing basis to meet its obligations and depends for its survival on frequent infusion of external funds.The central small industries development organization defined a sick unit as one which works below 20% of the installed capacity.The financial institutions consider a unit as sick if it has sustained cash losses continuously over a period of at least two years and the accumulated losses as per the latest available balance sheet exceed 50% of its paid up capital plus reserve.According to the Reserve Bank of India an Industrial unit will be defined as "weak" if it has at the end of any accounting year accumulated loses equal to or exceeding 50% of its net worth in the immediately preceding five accounting years.. This will cover all categories of industrial units.

Thus sick enterprises lead to problem like unemployment, revenue loss to state and central government and increase of non productive assets. sickness in due to various reasons like obsolete product or technology poor management, financial and marketing problem etc. Industrial sickness refers to failure of an industry to generate an output larger than the sum of all its inputs.

A few symptoms which identify the unit as sick are as follows :-

i. Continuing operational cash loss and need for fresh input of funds from external resources.

ii. Negative working capital (current assets are less than current liabilities and bank borrowing against inventories and debtors).

iii. Negative net worth (Accumulated loss in excess of share capital and free reserve).

iv. Declining cash inflow over the past three years in relation to revenue commitment.

v. Profit after meeting expenses is equal to or less than the interest liability.

Methodology

The present study is based on the secondary data refered in various journals, magazines, newspapers , books and internet on different sites.

Hypothesis

Ho=1 The Hypothesis is limited to identify the causes of industrial sickness

. Ho 2 Appropriate measure initiated before things get worse.

Causes of Industrial Sickness

After identifying sickness in industry, it is worthwhile to find out the causes which lead industries to sickness. Some industries are born sick, some achieve sickness and some have sickness thrust upon them.

i. Inherent Causes

Industries born sick are destined for disaster right form their conception, such causes are:

Promoters are unfamiliar with manufacturing products and technology involved. Projects are not properly conceived and all aspects of productions and selling are not thoroughly analyzed. Due to delay in project commissioning lead to cost escalations, create liquidity problems. Increase debt burden and cause non – viability. High technology based units are established in area without skilled labour and supporting infrastructure.

ii. Internal Causes:

. Industries which achieve sickness are those which fail after becoming operational due to internal causes. Some of these are :-

Bad management covering in experiences, inefficiency, lack of professional expertise, lack of clear goals and diversion of funds to start new unties etc.

iii. External Causes

Industries with sickness thrust upon them have problems not of their own making.They collapse from external causes. Some of these are:-

Industries cannot maintain production schedules or ensure quality control when power supply is erratic. Unstable available of coal and oil and insufficiency of transport facilities, short period changes in export – import policy, natural calamities, world wise recession in industry, Artificially enforced pricing of control, Rise in oil prices, shortage of oil due to adverse balance of payments government decision on monetary policy like demonetization etc.

iv. Exploitation by large Units

Many large unit including multinational corporations are systematically usurping the products reserved for small units. They face marketing problems owing to intensive competition from the medium and large sectors.

v. Financial Deficiency

In the majority of causes small units are undefined by the Banks and they usually get only ad-hoc financial assistance at levels way below their requirements. Jharkhand has faced sickness of industries in the state because most of the industries are old, lack of entrepreneurs, inter-departmental non–cooperation, not maintaining financial discipline, erratic power supply, lack of infrastructure, etc have put Jharkhand into difficult situation.

Government policy, role of Financial Institutions and bank

The responsibility for reviving sick units in practice depend largely on central and state governments, financial institutions. The Government is alive to the problem and has initiated a number of measures e.g. Selling up of IRCI, takeover of sick units under the industries (Development and Regulating) Act. 1951 soft loan scheme and amalgamation of sick units with healthy ones.Some major steps taken by the Government to combat sickness are:-

i. Promotion of Private investment and PPP mode mechanism in the development of infrastructure road, power, industrial clusters and industrial parts, including rural and village industrialization e.g. sericulture, Khadi, Handicraft, Food Processing, Handlooms, Bamboo, leather etc.
ii. Development of international trade service providers to boost international trade.
iii. Strengthening single window system for facilitating exporting industries.
iv. Thrust to entrepreneurship and skill development Programmes.
v. Promotion of trade facilities and E governance.
vi. Improving business environment with stress on "Ease of Doing Business" Timely clearances and responsive post investment facilitation services have been identified as the cornerstone for improving business environment.
vii. Industrial Reconstruction Corporation of India Ltd (IRCI).
viii. Soft Loan Scheme (IDBI, IFCI & ICICI).
ix. Merger policy (financially sound company may take over a sick unit)
x. Government take over.
xi. Industrial policy 1991 and 2001 (Liberalization policy).
xii. Many tax concession in import and export.
xiii. Concession in Sales Tax and excise tax.

Financial institutions are providing loan, equity capital for revival and modernization of sick industries. Some of these financial institutions are-

i) Industrial Development Bank of India (IDBI) established in 1964.

ii) Small Industries Development Bank of India (SIDBI).

iii) Industrial Finance Corporation (IFCI) of India established in 1948.

iv) Industrial Credit and Investment Corporation of India.

v) Industrial Reconstruction Corporation of India (IRCI) established in 1971.

vi) Public Sector and Private Banks.

vii) Foreign Loan.

viii) Venture Capital.

ix) Foreign Direct – Investment in many sectors.

Conclusion:

So in the light of above observation the organization and managerial structure of Industries requires some corrective measures.

i. **Preventive Measures :-** Any policy or set of guidelines that seek to combat industrial sickness must consider preventive as well as curative aspects of the problem. The first need for preventive measures is an early warning system geared to identifying units which could be potentially sic**k.**

ii. **Potential Viability Essential:-** While no case can be made out for the revival of potential non – viable units as during the period of survival they would have to depend on subsidies etc. Those advocating revival of such units are moved by the reprehensible harmful effect the closure of such units would have on the society in the form of large scale unemployment, affecting the working of industrial enterprises having backward and forward linkage. Therefore the approach must be very selective and only those units having reasonable prospects of attaining viability within a reasonable period should be selected for nursing.

iii. **Curative Measures :-**After preventive and viability considerations which must receive due attention before the initiation of therapeutic actions, it is now necessary the remedial measures open to the Government, Industry and financial institutions for combating industrial sickness.

iv. **Development of Cluster :-** The state Government will extent all necessary support for Cluster development of industries under the relevant schemes of Government of India VIZ small industry cluster development programme and quality of infrastructure in industrial clusters of the state would be upgraded.

v. **Development of Handicrafts :-** Jharkhand state is very rich in Handicraft there are more than 40 types of Handicraft such as Kantha, Appliqué, satin stitch, Tie and dye, Terra–cotta, Tasar Print, Papier meshe, Dhokra, Agarbatti making, Bamboo and Leather Craft etc.

vi. **Development of Handloom:-** Product of Handloom will improve with auto CAD design training, e-commerce and improvement of loom and replacement of old looms. Jhar craft will promote. Joint venture with other PSU, private enterprises Franchise model of marketing will be promoted.

vii. **Market Development initiatives:-** Jharkhand government take adequate step with the intention of giving enhanced visibility to local produce from large industries and specifically from MSMEs.

viii. **Quality Certification:-**

Quality improvement is strongly emphasized in the new industrial and investment promotion policy.

Suggestion:

I have following as suggestion:-

i. Micro Small Medium Enterprises Development Act 2006 seek to facilitate the development of these enterprises enhance their competitiveness and provides a legal framework for recognition of both manufacturing and service entities in states.

ii. Price preference will be allowed for goods manufactured by small industries in case of purchase by state owned PSUs including Boards, Corporations, Development Authorities, Trusts, Cooperative bodies and institution aided by state govt.

iii. Providing platforms for interaction between enterprises of Jharkhand and potential domestic and global markets through trade Fair, Road shows etc.

iv. Setting up a permanent exhibition cum convention centre for exclusive display of products.

v. Small scale industrial units will enjoy 100% exemption of stamp duty and registration fees for land directly purchased from the raiyats, acquired through consent award.

vi. Promotion of Foreign Direct investment.

vii) The Govt. of Jharkhand intends to develop SEZ and other export oriented parks for fast industrial development of the state.

viii. Amalgamation / merger with healthy units.

ix. Workers cooperation and partnership.

x. Development of professional management consultancy firms which might render managerial service to companies on payment.

xi. Special fund for sick units on lower of interest.

xii. Reduction of surplus work force.

xiii. Creation of special legal power to respond with speed. So that sickness can be arrested and rehabilitated.

xiv. Industry should have autonomy to build up its own managerial and workmen force.

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