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INTRODUCTION

In a capitalist economy wherein competitive forces have a free play, the sickness problem usually does not invite State attention or State intervention. The Darwinian principle of the 'survial of the fittest' will apply and those who cannot stand the competition will have sickness followed by natural death or extinction. This is one important virtue of free competition in a capitalist economy. Efficiency will be rewarded (with profits and growth) and inefficiency will receive due punishment (of extinction). A system of rewards and punishments is an essential feature of capitalism. An industrial unit which falls sick and fails to rejuvenate itself will get weeded out and this is the 'core of the logic of competitive industry. The fear of going to the wall creates the urge among industrial units to display the entrepreneurial qualities (including innovation) not only to survive but also to excel. Thus in a competitive economy there are built in forces to ensure eficiency in the functioning of the industrial and other sectors.

The story is different in respect of a mixed economy like ours with State Control, regulation and participation. The government in such a context cannot be indifferent to the problem of industrial sickness. In this unit we will explain the meaning of sickness, and discuss the extent or magnitude sickness, industry-wise and state-wise. We will also analyse the causes of sickness, and critically examine Government policies to tackle the problem of industrial sickness.

MEANING OF INDUSTRIAL SICKNESS

The phenomenon of industrial sickness, both in large and small scale industry, has become quite widespread during the last several years. This was particularly significant in the small industry sector resulting in the closure of a number of units.

Sickness may arise due to a multitude of reasons. The effects, however, are the same, e.g., financial hardships and unemployment of labour engaged in the industrial units falling sick, and wastage of national resources. It is, therefore, considered essential not only to devise suitable measures for dealing effectively with sick industrial undertakings but also to make suitable arrangements for monitoring and detecting industrial sickness at an early stage. This calls for a clear understanding of different aspects of sickness. First we shall deal with the meaning of industrial sickness.

It is generally observed that a sick unit is one which works below 20 per cent of its installed capacity. Also a sick unit is defined as one which operates at lower than break even point. According to another viewpoint, a sick unit is one which fails trs generate internal surplus on a continuing basis. A healthy unit is one which assures both a reasonable return on capital and reserves after providing for depreciation. Reasonable return on capital and reserves may be worked out from time to time by considering the lending rate of conlmercial banks. Utlils which cannot assure reasonable rate of return on capital and maintain adequate amount of reserves are defined as sick units.

The Study Team of State Bank of India in its ***Report*** on ***Small Scale Industry Advances,*** - 1975 defined a sick unit as "one which fails to generate an internal surplus on a continuing basis and depends for its survival upon a frequent infusions of external funds."

According to R.B.I., "a sick unit is one which incurs cash losses for one year and which, in the judgement of the bank, is likely to incur losses for the current year as well as the following year, and which has an imbalance in its financial structure, such as a current ratio of less than 1:l and worsening debt-equity ratio (total outside liabilities to net worth)."

A unit may be considered sick in which a major part, say 50 per cent, of its equity and reserves are eroded by cash losses. In the case of an entrepreneurials scheme, a sick unit is one in which there are no owned funds; a depletion of 50 per cent in the total working funds of these units may be considered indication of sickness. A persistent irregularity in working capital advances (not on account of inadequacy of limits) for a period of 12 to 18 months or stoppage of production for a sufficiently long period, say, six months may be taken to signify sickness. A sick unit is also defined as one which does not yield a reasonable return, say 15 per cent on capital and reserves after providing for depreciation.

In the Sick Industrial Campanies (special provisions) Act, 1985, a sick industrial company has been defined as follows: "An industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses equal to or exceeding its entire networth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year". Although not covered by the Act, the Government has identified another category of units called weak units.

These are the units which are at the incipient stage of sickness. A weak unit is termed as such if at the end of any accounting year, it has:

(a) accumulated losses equal to or exceeding 50 per cent of its peak networth, (b) a current debt-equity ratio of less than 1: 1 and (c) suffers a cash loss in the immediately preceding year. (In this unit most of our discussion is limited and to sick units as weak units are only potentially sick but not actual sick units).

Taking into consideration the above definition of a sick industrial unit, the following features may be identified with such a unit:

A sick unit is one that has incurred cash losses in the iinmediately preceding two years and in the judgement of credit institutions, is expected to incur losses during the current year. This may be called the ***loss criterion.***

A sick unit is one whose networth (i.e;. paid-up share capital plus reserves) has been eroded to the extent of at lease 50 per cent. ***This*** *may* ***be called the networth erosion criteriorn.***

a sick unit is one whose working capital advance account with the bank was irregular and this persisted over a period of time, say 12 to 18 months, and likely to become more persistent. This may be called ***working capital criterion.***

A sick unit is one which has defaulted in paying four consecutive halfyearly (or two consecutive annual) instalments of principal and interest on tern loans, if any. This may be called the ***loan repayment failure criterion.***

A sick unit is one which operates below 20 per cent of its installed capacity. This may be called ***low*** capacity ***utilisation criterion.***