



ROHINI

COLLEGE OF ENGINEERING & TECHNOLOGY

Approved by AICTE and Affiliated to Anna University, (An ISO Certified Institution)

Department of Management Studies

Master of Business Administration

Entrepreneurship Development-Sem-I

BA 4032

Unit V

Industrial Sickness

RBI- A small scale unit should be considered as sick if it has at the end of any accounting year, accumulated losses equal to or exceeding fifty percentage of its peak net worth in the immediately preceding 5 accounting years

(The **net worth** of a company is the difference between its total assets and total liabilities. It is also known as shareholders' equity or book value. The formula for calculating net worth is

Net Worth = Total Assets - Total Liabilities)

Industrial Sickness – Special Provisions Act, 1985

The government defined industrial sickness for the first time in the Sick Industrial Companies (Special Provisions) Act, 1985.

According to this Act, a medium or large (i.e. non-SSI) company was defined as sick if:

- (1) it was registered for at least 7 years (later reduced to 5 years)
- (2) it incurred cash losses in the current year and the preceding year.
- (3) its entire net worth (i.e. paid-up capital and reserves) was eroded.

A company is regarded, as weak or incipiently sick on the erosion of 50% of its peak net worth during any of the preceding five financial years.

Industrial sickness has been redefined in the Companies (Second Amendment) Act, 2002.

- The reasons for industrial sickness in India can be divided into two categories:
- **Internal causes** – which includes
 - Faults at the initial levels of planning and construction.
 - Financial constraints.
 - Labour and management problems.
 - Defective, inefficient, and age-old machinery.
 - Incompetence on the parts of entrepreneurs.
 - Unskilled laborers to work with modern technology.
- **External causes** are those which are beyond the control of its management and include –
 - Sudden changes in government policies.
 - Erratic supply of inputs.
 - Non-availability of energy resources and raw materials.

- Increased competition.
- Power cuts.
- Demand and credit restraints.
- Delay on the part of the Government in sanctioning licenses, permits, etc.
- **Revival and rehabilitation measures**
- The government undertakes the following measures to revive and rehabilitate the sick industrial units.
- **Financial Assistance**
- As per the directions of the RBI, the commercial banks granted the following concessions to sick industrial units:
 - Rescheduling of loans and interest:
 - Grant of additional working capital:
 - Waiving off interest on loans:

Moratorium on payment of interest, etc.

Moratorium means a legal authorization to debtors to postpone payment:

- **Organizational measures**
- The different organizational measures are given below:
 - State-level inter-institutional committees: These are set up by the RBI to ensure better coordination between the banks, state governments, and other concerned financial institutions.
 - Special Cell: It was set up by the Rehabilitation Finance Division of the IDBI to assist the banks for the revival of sick units.
- **Fiscal Concessions**
- The government amended the Income Tax Act in 1977 to provide a tax benefit to those units which take over the sick units for reviving them.
- The government announced a scheme for the grant of excise loans to sick/weak units.
- Under this scheme, selected sick units are eligible for excise loans not exceeding 50% of the excise duty paid over the preceding 5 years.