SICK UNITS OF PUNJAB –
A DETAILED DISCUSSION

Sonia Sharma*

*Assistant Professor,
PG Department of Commerce & Management,
Arya College,
Ludhiana, India.

ABSTRACT

Small-scale industries play very important role in the economic development of any developing or under-developed country. These industries meet the twin needs viz. solution of unemployment problem and checking the economic concentration in the hands of a few. These industries encourage self sufficiency, self-reliance and co-ordination. They provide beneficial reallocation of available resources and their proper utilization. The traditional village and cottage industries provide a vital means of livelihood to village artisans. These industries create the scope of employment to the rural persons.

In India Small scale industry has been accorded an important place, constituting nearly 40 percent of the total output in the private sector. Much more significant is the employment generation capacity of small scale industry. India operates today in sheer size what is perhaps the largest small industries programme in any developing country. The growth of small industry, as a priority sector has been sought to be promoted over years through various government policies and measures.

It has been observed that the SSI sector has grown rapidly over a period of time (1991-2006). The production of the SSI sector has increased at a compound growth of 18.48 per cent. The employment has registered a growth rate of 4.64 per cent during the period. The most significant achievement of the SSI sector is its performance in terms of exports, which has recorded a growth rate of 26.47 per cent during the period under review. The SSI sector is confronted with competition from the domestic segment of the large scale sector and multinational units from abroad, particularly after the introduction of the liberalization policy. The growth in the production of SSI sector declined during the nineties as compared with the earlier periods in India.

INTRODUCTION

Punjab inherited a weak industrial base after the partition of the country in 1947. There were 572 registered factories with employment of 37,486 workers in Punjab in August, 1947. Among these

factories, the largest number was that of ginning and pressing factories followed respectively by general and electrical engineering, iron and steel smelting, rolling and re-rolling, hosiery, aluminium, cooper and brass; wheat flour and rice milling and so on.

If we take a look at the situation soon after independence, we see that small scale industries were mainly concentrated in the production of consumer goods such as hosiery, handloom spinning and weaving. Soon after this, Batala town started emerging as the centre of machine tools in the country. By the end of 2000, there was a shift in the small industrial production towards producer goods e.g., machine tools, general and electrical goods. This structural change in the pattern of small industrial production occurred due to two reasons. First, the small industry was shifting from the products e.g. hosiery and handloom products to the consumer goods items such as sewing machines and their parts, bicycle parts, electrical fans, etc. Second, the relative importance of export earnings and import savings products such as sports goods and machine tools was increasing.

The dominance of the small sector in the industrial sector of Punjab in the early nineties is clear from the fact that the small enterprise contributed 81.8 percent in the total net output of the state's industrial sector in 1990-91. The share of the large sector in India was 49.9 percent of the net industrial output, it was only 18.2 percent in Punjab. Small enterprise were further categorized into the household and the non-household. The household industry accounted for about 34 percent of the total net output of 81.8 percent whereas at the national level it was only 16.9 percent. This shows that the household sector dominated the Punjab economy as compared to India.

By the end of 2000, the number of registered working small-scale industrial units in Punjab was 14,827 while for the country as a whole it was 1,59,000 Punjab's share in this respect stood at 9.33 percent. These small units with an investment of Rs. 81.54 crore employed 1,23,544 persons. The share of this registered small sector of Punjab was 7.74 percent in the case of fixed investment and 7.48 percent with regard to employment in this sector for the country as a whole. The gross value of output of this sector in Punjab was Rs. 243.39 crore and it was about 9.35 percent of the all-India figure. The average employment in these units in Punjab was nine persons and the per unit output was Rs. 1.78 lakh.

Inspite of its importance, the small-scale sector is beset with the problem of sickness. Sickness is a natural concomitant of market economy. An industrial unit is considered sick when its financial position is not satisfactory and it becomes worse year after year. It incurs losses and its capital reserves may be stretched out in course of time. When its current liabilities are more than current assets, the organization may not be in a position to pay its liabilities. Presently the small scale industrial sector suffers from a high rate of mortality and growing incidence of sickness. According to latest estimates, the percentage of sick unit in the small scale industry varies from ten to fifty percent in various states. At the end of 2001, 249630 (7.4 percent of total SSIs) were sick(Economic Survey 2001-02) .The number of SSIs which was 9.60 lakhs in 1981-82 has increased to 33.70 lakhs in 2000-01. The number of sick SSIs has increased from 25342 in 1981-82 to 249630 in 2000-01. The number of sick units as a percentage to total SSIs is continuously increasing from 1981. In Punjab 3134 units were declared sick and the large number of industrial sick units are located in Ludhiana followed by Amritsar, Jalandhar,

Bathinda districts. About on 23% of total sick units have been found in Ludhiana.(source R.B.I report).

During the post liberalisation period no such study appears to have been done in India, which has used discriminant analysis by taking financial and macro economic variables data for the prediction of industrial sickness. It is believed that the present study will help in predicting industrial sickness at the early stage and for taking remedial actions..

In the present study efforts have been made to identify the factors leading to industrial sickness in small scale industries in Punjab and developing a model of industrial sickness based on financial ratios and macro-economic variables

In the present study, analysis have been carried out in two parts. In the first part an attempt has been made to find out the relation between the various factors and sickness. A questionnaire was given to 100 respondents and on the basis of there answers an attempt has been made to find out the relationship among various factors i.e. age, education, nature of operations, nature of unit and sickness. In the second part, two group linear-discriminant analysis has been used for five years before sickness. The discriminant function has been developed for each year separately. For this purpose a sample of sixty industrial units i.e. thirty sick units and thirty healthy units was taken. The size was measured in terms of capital employed, sales and total assets.

Fifty-four financial ratios were chosen on the basis of their importance in earlier studies and their relevance to the present study. These ratios were categorized under the head liquidity, activity, solvency and profitability. Six macro economic variables were also selected to know their effect along with financial ratios. The discriminant analysis has been used on these financial ratios and macro economic variables and predictive accuracy of the models was estimated. The student t-test was also applied on the financial ratios to identify the difference, if any, between their mean values

6.1   FINDINGS

6.1.1   FINDINGS ON BASIS OF ENTREPRENEUR'S OPINION

It has been found in the study that the units located in urban areas are less prone to sickness than the units located in rural areas and also the sole proprietorship units are more prone to sickness than the partnership firms or units. It may be on account of their limited capital resources. It has also been found that the units owned by professionally and technically educated entrepreneurs are managed more efficiently and their units are less prone to sickness as compared to the units managed by the less educated entrepreneurs. In this study, positive relationship has been found between the age of the entrepreneur and industrial sickness. Higher the age more is the chances of sickness. The extent of sickness is more in seasonal units than the in perennial units. Seasonal units are more prone to sickness due to their idle capacity during the off season. The units which are financed through money lenders, friends or family members are more prone to sickness than the units which are financed through banks and financial institutions.

The main internal causes pointed out by the entrepreneur, which lead to sickness in accordance to their importance (as given by entrepreneur) are inappropriate financial structure, obsolete machinery, poor utilization of assets and poor working capital management. The main external causes pointed out by the entrepreneurs in order of their importance are restraints/restriction on purchases, strict credit policy, excessive taxation policy, market recession and non-availability of raw material. The various symptoms of sickness pointed out by them in order of their importance are profit fluctuation, downward trend in sales and stagnation, failure to pay statutory liabilities and weak equity base. The various yardsticks suggested by them for measuring performance of revived sick units in order of their importance are increase in profitability, maximum use of financial resources, servicing of past liabilities and timely payment of current liabilities.

6.1.2 FINDINGS OF STUDENT T-TEST

The student t-test results revealed that there was a significant difference between the financial ratios of the sick units and healthy units. The mean values of the ratios of sick units and healthy units have been found to be statistically significantly different.

There has been a statistically significant difference between the mean values of profitability ratios, liquidity ratios and solvency ratios of the sick units and healthy units. The mean ratios of debt to equity, debt to value and fixed assets to shareholders' funds have also been found statistically significantly different for sick units and healthy units. However no significant difference in the activity ratios of sick units and healthy units has been observed. The activity ratios comprise of debtors turnover, creditors turnover, inventory turnover and working capital turnover ratio.

As expected the mean value of earnings and cash flow and return on investment have been found statistically significantly different for sick units and healthy units. Similarly, the ratios of cash flow from operations to total debt, return on equity, and net income to fixed assets, cash to total assets and working capital to total assets have been statistically significant different means. These ratios have been found to be unfavourable in sick units.