

**MINISTRY OF INDUSTRY
SICKNESS IN HEAVY
ENGINEERING INDUSTRY**

**ESTIMATES COMMITTEE
1990-91**

NINTH LOK SABHA

LOK SABHA SECRETARIAT

NEW DELH

CORRIGENDA TO

The Twelfth Report of the Estimates Committee
(Ninth Lok Sabha) - Ministry of Industry.

Page	Line	For	Read
ii	Contents	25	17
ii	Contents	17	21
5	28	interet	interest
13	28	simultaneously	simultaneouslyy
15	24	ncentives	incentives
30	31	plaining	Explaining
30	32	ndustry	industry
33	12	Sisk	Sick

TWELFTH REPORT
ESTIMATES COMMITTEE
(1990-91)

(NINTH LOK SABHA)

MINISTRY OF INDUSTRY
SICKNESS IN HEAVY ENGINEERING INDUSTRY



Presented to Lok Sabha on 10 Jan, 1991

LOK SABHA SECRETARIAT
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C O N T E N T S

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
CHAPTER I	
(a) Magnitude of Sickness	2
(b) Government Policy on Industrial Sickness	5
(c) Cause-wise Analysis for Sick Units.	8
(d) Detection of Sickness	25
(e) Monitoring and Coordination?	17
CHAPTER II	
(a) Process of Rehabilitation	26
(b) Role of BIFR	29

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(1990-91)

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*Shri K. C. Tyagi has resigned from the membership of the Committee on
*stimates with effect from 30th August, 1990.

INTRODUCTION

1. The Chairman of the Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this 12th Report (1990-91), on the Ministry of Industry, Department of Industrial Development—Sickness in Heavy Engineering Industry.

2. Importance of heavy industries in overall industrial development of the country is self-evident. Recognising this and taking note of growing sickness in Heavy Engineering sector, the Estimates Committee (1989-90) selected this subject for their examination.

3. For the purpose of examination of this subject, the Committee prepared a detailed questionnaire on the subject and sent it to the Ministry for written replies. Thereafter, the Committee took the evidence of the representatives of the Ministry of Industry on 6th September, 1989. The Committee wish to express their gratitude to the officers of the Ministry of Industry for placing before them the material and information which they desired in connection with the examination on the subject and for giving evidence before them. The Committee also wish to thank those officials of RBI/IDBI who appeared before the Committee for tendering evidence for sharing their views with the Committee.

4. The Committee have based their examination essentially on the data of sick heavy industries as at the end of December, 1987. The Committee found that as many as 45 Heavy Engineering Units in the private sector and 2 such units in the joint sector were sick. An amount of Rs. 220.61 crores (Rs. 9.88 crores in joint sector units) advanced as bank credit to these units was locked up. Apart from this, a much larger portion of national resource, involving investments made in the equity of these units has either been lying idle or was being utilised sub-optimally.

5. The Committee agree with the general policy of the Government against the taking over of sick industrial units. In this context, the Committee have welcomed the enactment of Sick Industrial Companies Act (SICA) and the establishment of the Board of Industrial and Financial Reconstruction (BIFR). Recognising the significance of this subject, the Committee have given a separate

report on BIFR. In the context of sickness in heavy industries, the Committee called upon the Board to pay greater attention to this sector.

6. While the rehabilitation of sick industrial units, including those in the heavy engineering sector, is now the responsibility of BIFR, the Committee have cautioned the Government in the matter and have desired that the Ministry should concentrate its efforts in creating an environment in which incidence of sickness is minimised. The Committee have desired the Government to take the following initiatives:—

- (i) Involvement of State Governments in promoting harmonious industrial relations through tripartite meetings;
- (ii) Periodical review of schemes meant for technological upgradation for assessment of their impact;
- (iii) Regular supply of basic raw materials;
- (iv) A fresh look at project appraisal techniques and procedures;
- (v) Prompt payment of dues by Government Departments; and
- (vi) Completion of viability studies in respect of units declared sick within a stipulated time.

The Committee have noted that a large number of sick heavy engineering units exist in Maharashtra and West Bengal. The Committee expect the Government to investigate the reasons for this.

7. An important element of strategy to combat industrial sickness is to facilitate early identification of sickness. In this context, the Committee have noted that the present situation is unsatisfactory. To overcome it, the Committee have advised the Ministry to have its own information back-up for a periodical appraisal of the heavy engineering sector. We note with concern that such information is not maintained even by the RBI. For example, the Committee were unable to get any authentic information about the numbers of people employed in sick heavy engineering units. Ministry of Industry informed the Committee that such information was not being maintained.

8. Other areas that require strengthening at all levels, including Ministry of Industry, are monitoring and inter-ministerial coordination. The present state of affairs in this respect leaves a great

deal to be desired. Indicative of this is the fact that although a Health Code System for monitoring the performance of units, assisted by financial institutions, has been introduced, the Ministry was not able to furnish any details about the actual impact of this practice.

9. Apart from systematic monitoring of the performance of heavy engineering sector, it is also important to redefine 'sickness', as referred to in the SICA, so that it is checked at the incipient stages itself.

10. The Committee would also like to express their thanks to the Estimates Committee (1989-90) for taking evidence on the subject and obtaining valuable information thereon.

11. The Report was considered and adopted by the Estimates Committee (1990-91) on 20th August, 1990.

12. For facility of reference recommendations/observations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report

NEW DELHI;
3rd December, 1990

12 Agrahayana, 1912 (S)

JASWANT SINGH,
Chairman,
Estimates Committee.

CHAPTER I

SICKNESS IN HEAVY ENGINEERING INDUSTRY

1.1 Efforts of the country's planners and its successive governments have been to achieve, alongside sustained growth in agricultural sector, a rapid industrialisation in order to give the economy a strong base and to create employment opportunities in the country. The importance of heavy industries for the achievement of these objectives is self evident. Pointing out the importance of heavy engineering industry the Secretary to Government of India, Ministry of Industry stated, during evidence:

"Heavy Engineering Industries are the core industries. They are the basic industries from which other industries grow."

Definition

1.2 Defining what constituted heavy engineering industry, Secretary, Ministry of Industry stated:

"It is that sector which has high capital investment, It helps in producing goods and heavy capital equipment which are used again in production of other equipment as well as other technological processes. It is also a sector that uses technology to a great deal. It has long lead time and gestation period in the production process. These are some of the characteristics of the heavy engineering industry. The heavy engineering industry loosely is also called capital goods industry. The equipment manufacturing industries like machine tools, the transport, railway wagons, coaches fall within the sector of the heavy engineering industry."

1.3 The Secretary, while explaining the general background leading to sickness in heavy engineering industry, further stated:

"Because of the heavy capital investment, technology inputs, long lead time gestation period and the fact that the market for heavy engineering industry is not a secure kind of market, this sector has had to contend with fluctuating fortunes in the past. It also is dependent largely on two major factors apart from technology and the long gestation period, which are the raw material and market

mechanism. It needs specialised steel, metal-based items, copper, lead, zinc, etc. It also is dependent, in many cases, on monopoly buyers. For instance, for power generating equipment, the monopoly buyers are the State Electricity Boards. If there are fluctuating fortunes in the State Electricity Boards, such as low investment, inability to discharge payment liability, financial problems with the State Electricity Boards, then obviously the equipment manufacturers in the heavy engineering sector suffer. Similarly, coalmining equipment is another kind of machinery which is used in the capital goods sector. It is heavily dependent on the health of the consumer sector which often is a monopoly sector. These reasons have led to fluctuating fortunes in the heavy engineering sector. Also because of the high investment added with problems of raw material supply, which compels loading the company with high inventories further adding to costs, the profitability margins have been low. This is not a sector which has a very high profit margin. For these reasons, the health of this sector has been fluctuating."

(a) *Magnitude of Sickness*

1.4 The Ministry of Industry was asked to furnish information about the number of Heavy Engineering Sick Units (State-wise) other than those in the public sector. The Ministry in their reply stated that based on half yearly returns, submitted by banks, State-wise position of sick Heavy Engineering units, as at end of December 1987, (latest available), was as follows:

[Sickness as defined in Sick Industrial Companies (Special Provisions) Act, 1985]

(Rs. in crores)

Sl. No.	State	Private Sector		Joint Sector		Total	
		No. of units	O/S bank credit	No. of units	O/S bank credit	No. of units	O/S bank credit
1	2	3	4	5	6	7	8
1.	Andhra Pradesh	3	1.46			3	1.46
2.	Bihar	1	0.58			1	0.58
3.	Gujarat	3	7.79			3	7.79

1	2	3	4	5	6	7	8
4.	Haryana	1	4.96			1	4.96
5.	Karnataka	1	2.87	..	..	1	2.87
6.	Madhya Pradesh	1	1.67	..	..	1	1.67
7.	Maharashtra	16	93.08	..	..	16	93.08
8.	Punjab	2	0.32	..	..	2	0.32
9.	Tamil Nadu	6	1790	1	2.51	7	20.41
10.	Uttar Pradesh	1	0.09	1	7.37	2	7.46
11.	West Bengal	9	77.52	..	..	9	77.52
12.	Delhi	1	2.49	..	..	1	2.49
TOTAL:		45	210.73	2	9.88	47	220.61

(Source : Reserve Bank of India)

1.5 Explaining the criteria for compiling these statistics of sick units in the heavy engineering sector, the Secretary, Ministry of Industry, stated:

"After the enactment of the Sick Industrial Companies (Special Provisions) Act, 1985, we are going by the definition as laid down in SICA of 1985. According to that, the number of units in the heavy engineering sector which are considered to be sick as a proportion to the number of units which are in actual production—is not that large. The number that has been identified by the RBI in the 1987 statistics is 47."

1.6 In this context the Committee were informed that since January 1987, RBI had adopted the definition of Sickness as provided under SICA, 1985. As per this definition a 'Sick Industrial Company', means 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 net worth and has also suffered cash losses in such financial year, and the financial year immediately preceding such financial year.

1.7 The Ministry further stated that of the 47 units classified as Sick Heavy Engineering Industries, viability studies had been conducted in respect of 38. 19 units were considered as viable, the remaining 19 units non-viable. Viability is yet to be established in respect of the remaining 9.

1.8 When asked to state when viability studies of these nine remaining units would be taken up, the Ministry replied that it was not possible to indicate any specific time frame. However, once an unit was identified as sick, a viability study was invariably taken up alongwith follow up action.

1.9 The Committee note with concern that as many as 45 heavy engineering units in the private sector and 2 such units in the joint sector are sick. On the basis of information supplied by the Ministry, the Committee find that an amount of Rs. 210.73 crores, and Rs. 9.88 crores, in the private and joint sector units respectively, advanced as bank credit, is locked up. Apart from this, it is obvious that a much larger portion of national resource, involving investments made in the equity of these units, by a large number of small investors is also either lying idle or is being utilised sub-optimally. The Committee welcome the establishment of Board for Industrial and Financial Reconstruction under Sick Industrial Companies (Special Provisions) Act, 1985. However, at the same time the Committee is of the view that the Government should demonstrate much greater seriousness about the magnitude of industrial sickness, particularly in the heavy engineering sector which is a core section. Only by so doing can investments made in this sector by the public directly, or through public financial institutions, be optimally and efficiently utilised. This, in the opinion of the Committee has become all the more necessary in view of scarcity of resources.

1.10 The Committee have been informed that of the 47 units on the sick list viability studies had been carried out only in respect of 38 units. In respect of the remaining 9, no specific time-frame had been laid down. The Committee are unable to appreciate this: why ought viability studies of these units, without which no remedial action is possible, and which should be undertaken as fast as possible, not be subject to a time schedule. The Committee would like to impress upon the Government its views on the subject alongwith the desirability of carrying out such studies promptly. Accordingly, therefore, the Committee recommend that a specific time limit be fixed for the purpose.

1.11 The Committee also note that the incidence of sickness in the heavy engineering sector is markedly higher in two States, viz., Maharashtra and West Bengal. The Committee would, therefore, recommend that Government may study the situation in these two States in consultation with the State Governments concerned in order to ascertain whether any special problems are encountered by the

heavy engineering industry in these States. The Committee would await the results of such a study.

(b) Government Policy on Industrial Sickness

1.12 The Ministry were asked to give details of the policy response of the Government in tackling the problem of sickness in heavy engineering industry. In a written note, the Ministry stated that several policy measures have been initiated by the Government for the revival of sick industrial units. These policy measures are described as under :—

“The Soft Loan Scheme was introduced in November, 1976 for modernising the five selected industries, namely, cotton, textiles, jute, cement, sugar and specified engineering industries. The main objective of the scheme is to provide financial assistance on concessional terms to the weaker units in these five groups for modernisation, replacement and renovation of their old plant and machinery. The scheme is being operated by the IDBI along with IFCI and ICICI.....

In 1977, the Central Government evolved a scheme of merger of sick units with healthy ones with a view to revive sick industrial units. In the Finance Act, 1977 Government introduced certain fiscal concessions under Section 72A of the Income Tax Act, whereby a healthy unit taking over a sick unit was allowed to carry forward and set off the accumulated losses and unabsorbed depreciation of the latter against its own tax incidence. However, it was stipulated that the merger should be in the public interest. In respect of the amalgamations mooted by MRTP companies, the requirement was an overwhelming public interest.

The policy of 1978 on sick industries recognised that the revival of a sick unit cannot be the responsibility of any single agency and that it can be achieved effectively only by a sharing of the responsibility by Central Government, State Government, Financial Institutions, RBI and the management itself. The policy stated that closer and more vigilant involvement of financial institutions in units with management of doubtful competence or integrity would be essential. For this purpose the policy statement announced that a group of professional directors would be set up jointly by financial

institutions. This group would report to the financial institutions on measures that should be taken to prevent industrial sickness. In the case of industrial units which were already sick, the policy advocated rehabilitation through joint efforts of State Government and financial institutions who were to provide financial and managerial support with suitable restructuring of the management.

A new strategy for sick units was announced by the Union Industry Minister in October, 1981 which was subsequently modified in February, 1982. The strategy aimed at preventing sickness in industry, quick rehabilitation of weak units and early decision on the future of sick units. It was stated that the specific responsibilities rest with the administrative Ministries for prevention and remedial action in relation to sickness in industrial sectors within their respective charge. Where major industrial sectors were afflicted with widespread sickness, the administrative Ministry has to set up Committees for reviewing and suggesting policy measures required to tackle the problem. It also called upon the financial institutions and banks to take timely corrective action to prevent incipient sickness. A monitoring system for sickness in industrial units was to be evolved. As soon as the banks, financial institutions become aware of definite signs of sickness, necessary corrective action was to be initiated on the basis of a study undertaken by them where banks and financial institutions wanted effective remedies in the shape of rationalisation of labour strength, infrastructural inputs, the Department of Industrial Development was to take up the matter with the concerned Central Ministries and State Governments. Nationalisation also could be thought of for reviving of an undertaking provided the unit could become viable in a reasonable period of time and the step was in public interest."

1.13 As a result of further review of the situation the Government has enacted a comprehensive legislation, namely, "The Sick Industrial Companies (Special Provisions) Act, 1985" which, inter-alia, provides for setting up of a quasi-judicial body designated as the Board for Industrial and Financial Reconstruction to look into the cases of companies which have become sick. The Board takes decision about their rehabilitation or other suitable action in each

case, considers various alternatives for revival and rehabilitation of sick unit such as change of management or take over, amalgamation with other unit or sale or lease of a part or whole of its undertaking or such other preventive, ameliorative and remedial measures as may be appropriate. The BIFR set up under the Sick Industrial Companies (Special Provisions) Act, 1985 became operational on 15 May, 1987. Industrial companies whose net worth has been eroded by 50 per cent or more are required to make a reference to the BIFR under Section 15 and 23 of the Act, respectively. While references received under Section 15 are required to be inquired into, there is no such requirement in respect of references received under Section 23.

1.14 Summing up the overall approach of the Government, at present, in tackling the problem of industrial sickness, the Ministry stated:

“The Policy guidelines on sick industries which were issued in October, 1981 emphasised the following:

- (i) The emphasis should be on preventive rather than curative measures;
- (ii) The banks and financial institutions should detect sickness at the incipient stage itself;
- (iii) The concerned administrative Ministries in the Government of India as well as the State Governments should keep a close watch on the sickness concerning their respective industries;
- (iv) Take over management under the Industries (Development & Regulation) Act, 1951 should be resorted to rarely and that too as a prelude for nationalisation within six months of the date of take over.”

1.15 During evidence, Secretary of the Ministry was asked to indicate the agency which earlier fulfilled, the role now assigned to BIFR. She stated:

“Before the Act came into force, the banks and RBI used to report the cases of sickness to the Ministry of Industry and they would then refer those cases to the concerned administrative Ministries. Then there was a Guidance Committee under the Chairmanship of the Finance Secretary which used to look into the problems of temporary nature. That Committee used to meet and help in rehabilitation of that industry. This work is now being done by the BIFR. This BIFR has certainly been given a focus as far as revival of sick units is concerned.”

1.16 Asked about the policy of the Government on nationalisation or take over of sick industrial units, the Ministry stated that the general policy of the Government now was not to take over sick units and that the logic underlying this approach was that scarce resources of the country could be better employed.

1.17 Asked what was the Ministry's view about certain heavy engineering units that were nationalised, and then denationalised, and whether the Ministry had any specific plan for revival of these companies through any other agencies, Secretary, Industry stated:

“We have no such programme...But the general policy of the Government is not to take over or nationalise units any more. If a unit is revivable and if it is viable, then rehabilitation package is the route that we would like to follow and not the nationalisation route.”

1.18 In this context the Ministry informed the Committee in a written note that no heavy engineering unit had been taken over by Government under Industries (Development and Regulation) Act, 1951, since 1982.

1.19 The Committee have been informed that general policy of the Government was not to take over or nationalise sick industrial units any more. The Committee agree with this view of the Government. There might, however, be unusual circumstances warranting take over or nationalisation of a unit. This policy pronouncement of the Government has, therefore, to recognise a necessary caveat.

(c) *Cause-wise analysis for Sick Units*

1.20 With regard to cause-wise analysis of the sick units in the Heavy Engineering industry, the Ministry stated in the Preliminary Material as under:—

“The RBI have informed that a cause-wise analysis exclusively for Heavy Engineering units has not been carried out. However, a general Study was carried out by RBI covering 1200 individual large and medium units (i.e. non SSI units) including those in the public sector, on the basis of information data obtained from banks as at end December, 1986 i.e. prior to coming into force of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA). This covered, *inter-alia* 320 medium and large sick engineering units (other than iron and steel).”

1.21 Since Heavy Engineering Industry is dealt with by the Ministry of Industry, the Ministry were asked whether it would not have been proper for the Ministry to have an exclusive study made for sick units in the Heavy Engineering Industry so that factors responsible therefor could be analysed and remedial measures taken. The Ministry was also asked to give its views about the predominant reasons for the sickness in Heavy Engineering Industry.

1.22 The Ministry in their reply admitted that no cause-wise analysis of sickness exclusively in respect of heavy engineering sector, had been made. The Ministry further stated that Government had always been conscious of the imperative need to tackle the problem of industrial sickness as a whole, covering all the important and critical sectors of the economy including heavy engineering industry. They stated that such a monitoring was a continuous exercise and attended with consequential remedial measures and strategies for timely rehabilitation. However, the causative studies were being done by the banks under the guidelines of the Reserve Bank of India. Necessary action was, moreover, being taken through the Board for Industrial and Financial Reconstruction (BIFR) created under the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) to evolve suitable rehabilitation packages on a case by case basis.

1.23 In the written note furnished by the Ministry to the Committee it drew Committee's attention to a recent study made by the Reserve Bank of India to analyse the causes of industrial sickness. This study had shown that market problems, financial problems, labour problems, obsolescence of machinery and management deficiencies were the major factors responsible for industrial sickness in the heavy engineering industry.

1.24 With regard to extent to which each of these factors were responsible for sickness of different units the Ministry in a written note stated :—

“Since sickness is generally observed to be the result of a combination of factors, the frequency of appearance of each factor was studied. The findings of the study for 320

medium and large engineering units included in the broad study of 1200 sick units are given below :—

Causes	No. of units*	% to total
Management deficiencies	284	88.75
Market Problems	105	32.81
Project conception/execution	88	27.50
External factors	71	22.18
Infrastructure deficiencies	63	19.68
Labour problems	64	20.00
Obsolescence	17	5.31
Financial difficulties	36	11.25

*The total of this column would not tally with the number of engineering units studied because sickness was analysed to be on account of a combination of factors."

1.25 Asked to state how many of the 320 units for which studies had been conducted, related to Heavy Engineering Sector and which factor appeared to be more frequently responsible for sickness in such units as also what measures had been taken to check such a frequency, the Ministry stated that out of 320 units for which studies have been conducted 50 units were categorised under Heavy Engineering Sector. When it was pointed out by the Committee that in a different set of statistics giving state-wise details of sick units in Heavy Engineering Sector the figure was just 47 the Secretary, Ministry of Industry explained that the above 320 sick units were as per the definition of RBI prior to January, 1987. According to that definition, a unit could be considered as 'Sick' if it had incurred cash loss for one year and, in the judgement of the bank, was likely to continue to incur cash losses for the current year, as well as the following year, and which had an imbalance in its financial structure, such as current ratio of less than 1:1 and a worsening debt equity ratio (total outside liabilities to net worth).

1.26 Frequency of factors responsible for sickness, in respect of these 50 heavy engineering units is as follows:

	No. of units	%Age of cases
Management Deficiency	12	24
Financial problems	16	32
Market Problems	24	48
Infrastructural Problems	9	18
Obsolescence of machinery.	13	26
Labour problems]	15	30
Project shortcoming	10	20

1.27 It is evident that market problems is the most frequent causes of sickness in the heavy engineering sector. Recession in demand, inability of the buyers to place continuous orders due to their own internal problems are some of the major market constraints. The Committee were informed by the Ministry that amongst remedial measures was diversification of the product-mix. It was further stated that wherever possible attempts were being made to ensure firm commitment regarding purchases from Government departments, and undertakings.

1.28 Financial problems were being faced in the following fields:—

- (i) Management of working capital
- (ii) Availability of Promoters contribution for such working capital as well as for term loans
- (iii) Management of inventories
- (iv) Collection of receivables
- (v) Inability to comply with the discipline of banks and financial institutions
- (vi) Over-trading leading to inability to maintain the delivery schedule followed by penalties.

1.29 The Ministry stated in its written reply that these financial problems were mainly on account of managerial deficiencies as

well as financial inadequacies of the promoters. These, therefore, had to be tackled on a case to case basis.

1.30 In regard to sickness due to obsolescence of machinery, the Committee were informed that IDBI had come up with a modernisation scheme, specifically for the engineering sector which, *inter-alia*, provided for modernisation/renovation/replacement of plant and machinery so as to improve productivity and competitiveness.

1.31 For tackling management related problems the Boards of Directors of sick units have been professionalised with nominees from financial institutions/banks as also professional nominees of Board for Industrial and Financial Reconstruction (BIFR). Whenever any other managerial deficiency comes to the attention of the financial institutions, it is taken up with the unit concerned, for rectification.

1.32 The Ministry have further stated in the preliminary material as follows:

“Quite often banks and financial institutions alone may not be able to find effective remedies to industrial sickness. They

- may need assistance at Government level, particularly where rationalisation of labour strength wages, infra-structural inputs, etc. are required. Such cases should be brought to the notice of the Deptt. of Industrial Development, who would take up the matter with the concerned Central Ministries and State Governments.”

1.33 In written reply to questionnaire issued by the Committee the Ministry stated that in a recent study conducted by the Reserve Bank of India no case where industrial sickness had resulted only from labour problems had been reported. In fact, in all cases of sickness a combination of factors had been responsible.

1.34 The above study also brought out the number of cases which became sick due to inefficient management. Again this factor could not be held as exclusively responsible for sickness.

1.35 The Committee were informed that almost all cases of industrial sickness were now being referred to BIFR for rehabilitation or other-wise. As and when BIFR takes cognisance of a sick unit, it keeps the Administrative Ministry informed. In fact, suggestions of the Administrative Ministry on the rehabilitation package or other-wise are invariably taken.

1.36 Elaborating upon the causes of industrial sickness with particular reference to heavy engineering sector, the Secretary, Industry stated during evidence:

“...what the Ministry has done to overcome some of the problems which are the general problems. They are the general problems but they have been specifically mentioned in the survey. One is marketing. I mentioned to you that marketing is a major problem because there are monopoly buyers and industry did not have the flexibility to diversify their products. In order to overcome that, in 1985 the Government delicensed the entire industrial machinery sector so that the companies have a flexibility to produce that which the market is needing at a point of timeIn the core sector large companies that are financially strong could make investment without any kind of deterrence, which is otherwise applicable to MRTP and FERA companies. Then we introduced the liberalised import policy to enable them to get their input so that they could economically produce something which could be competitive in the market. Technology import and modernisation programme were undertaken in 1987. The Ministry had five sectors of the heavy engineering industry studied in detail by expert groups. On the basis of the reports of those expert groups, the technology upgradation scheme was introduced by IDBI. This technology upgradation scheme of IDBI enables capital goods sector to get concessional finance for modernisation and for import of technology and simultaneously to remove the constraint of component imports and raw materials. A concessional regime for excise and customs duty was also given from the Government's side. So, the two types of concessional finances that were made available through the technology upgradation scheme are the result of the Government's intervention in trying to upgrade technology, enable modernisation, introduce competitiveness and enable cost effective production by the major industries and cater to the market demand.”

Chairman IDBI added:

“I would like to supplement what the Secretary has just now mentioned. As she rightly mentioned, modernisation in technology is very good and a positive factor which can help to alleviate sickness in the heavy industry. IDBI

having three schemes in this direction. One is general modernisation scheme in which equipment finance is supplied at a concessional rate of interest. There are two other schemes, i.e. the technology development fund which is a very important input and which is solely for financing import of prototype equipments. Thirdly, what the Secretary has just now mentioned is the technology upgradation."

1.37 Asked what was the suggestion of the Ministry to overcome problems relating to marketing, the Industry Secretary stated:

"Only diversification of the product can get you out the clutches of the buyer. If you manufacture power generating equipment, you have no choice except to sell it to the Electricity Boards. Mining equipment can be sold only to Coal India. Capital goods in telecommunications can be sold only to the Department of Telecommunications which has a monopoly in the telecommunication sector. Unless you give freedom to the company to diversify into products which are not wholly dependent on the monopoly buyers, the company's fortunes are linked with those monopoly sectors."

1.38 When, during evidence, the Committee desired to know whether any survey had been conducted to know the impact of policy liberalization in various areas affecting industrial growth the Secretary Industry stated:

"We are reviewing it constantly."

1.39 Asked whether the Ministry of Industry was entrusted with the responsibility of creating export market for Indian and what role it played in popularising Indian products in foreign markets, Secretary Industry stated:

"We play a role in assisting the country's exports. We are involved in decision making in coordinating industrial policy with export policy in order to encourage the export growth."

1.40 Asked whether any incentives were given by the Ministry to improve exports, the witness stated:

"It is incentive-oriented production."

Chairman, IDBI added:

"I would like to add one more aspect to it. We are talking about substantial increase in the growth of engineering exports. Engineering exports as far as heavy engineering is concerned, take place through project exports. For example, somebody in India is trying to take up projects for putting up a sugar mill in Malaysia or Africa. Then we export the entire sugar machinery to them."

1.41 Taking note of the fact that labour unrest was one of the major contributory factors towards sickness in heavy engineering sector the Ministry were asked whether the Government have any plans or programmes to change the laws or to make any other legislation to tighten the labour sector, the Industry Secretary in her reply stated:

"I think we have no programme to change the law. The main problem of labour and its conflict with management is really a matter which the State Governments handle. It is within the purview of the State Governments. But I think the management also has a major role to play by making the environment productivity oriented, by giving incentives for productivity, for performance, for improving the working environment, by giving training and retaining the labour, by involving labour in participative management, etc. This is something which the Government is indirectly encouraging. There is no direct intervention of Government. But we have organisations like the National Productivity Council which undertakes studies of different industrial units to show why productivity is declining, what can be done to improve productivity, how to train manpower, how to give incentives, what is the national basis for sharing of incentives and these case studies are discussed both with labour unions and management and I think there are several such catalytic organisations which create an awareness of the need for improving productivity and better management and labour relation."

1.42 Commenting on circumstances under which the capital goods became uncompetitive, the Industry Secretary stated:

“We are constantly analysing this issue. We are doing sub-sector-wise and sector-wise studies. Unfortunately, the major weakness of the Indian capital goods sector is that it does not remain competitive because of high cost of the raw material. It is also affected by the high cost of steel (imported), copper cost, import duty, etc. The cost of the raw material is an important input. It makes the viability of these units get more and more distorted. Secondly, we are freely allowing modernisation by liberal import of technology as well as drawings and designs so that even with the imported designs you can build a modernised sector, this is being permitted. I think there are also certain strengths in the Indian capital goods; one of the major strengths which has been recognised globally is the strong pool of technical manpower, which is capable of diversifying, innovating etc. I do not foresee that this sector is going to die, it is going to add to the strength no doubt; but we would need a lot of things by way of rationalisation; we are trying to rationalise the import of components rather than finished products; we are allowing competition in a more rational manner. I hope that this sector will grow in strength rather than decline.”

1.43 The Committee note that problems relating to marketing, finances, labour, obsolescence of machinery, and management deficiencies mainly account for sickness in the heavy engineering sector. The Committee note with satisfaction that the Government, of late, is encouraging heavy engineering units to diversify their products mix. However, the Committee is not in agreement with the stand taken by the Ministry that the responsibility for solving labour related problems rested solely with State Governments. The Committee would like the Ministry to take due initiatives in this regard. The Committee would, therefore, recommend that the Ministry of Industry should convene tripartite meetings of management, labour and the State Governments periodically. This, the Committee feel, will promote a common outlook on the problem.

1.44 The Committee note that financial problems arise essentially from managerial inadequacies. Since most of the heavy engineering units depend on banks and other public financial institutions for their

credit requirements, the Committee would recommend that directions be issued to banks and financial institutions like IDBI for maintaining a close watch on the performance of such units. In this context, the Committee would also recommend that the definition of a 'sick unit' as adopted under SICA, 1985, should be reviewed early with a view to facilitating early identification.

1.45 The Committee note with satisfaction the steps taken in recent years for a technological upgradation in the heavy engineering sector. The Committee would, however, like the effect of these schemes to be reviewed periodically. The Committee would also like the Ministry to examine whether the various existing incentives for technology upgradation are adequate.

1.46 The Committee would like the Government to examine afresh whether its existing project appraisal techniques and procedures merit reform. Perceived social benefits cannot replace economic viability of a project.

1.47 The Committee are also of the view that steps are required to be taken to ensure a regular supply of basic raw materials, especially steel and coal, at reasonable price to heavy engineering units. Departmental undertakings should make payments in time, ensure more favourable infrastructural facilities and provide finance for technological upgradation.

(d) *Detection of Sickness*

1.48 The Ministry were asked to indicate the preventive steps taken to detect sickness of the units at an incipient stage. The Ministry in their written reply stated:

"The need for detection of sickness at the incipient stage itself and proper coordination between commercial banks and term lending institutions in the formulation and implementation of rehabilitation programmes, has been long felt. The RBI have from time to time issued instructions in this regard which require:

- (1) The banks should review the accounts of the borrowers to identify those units which are already sick or prone

to sickness. This review of accounts should be done without fail. The banks should set up cells which could use the information available and detect early warning signals.

- (2) The progress of sick units which are being nursed by banks and financial institutions should be monitored.
- (3) Initiate prompt remedial action including a dialogue with the borrowers to arrest the trend by elimination of the factors causing sickness.
- (4) The banks should also strengthen their technical appraisal/inspection machinery at various levels suitably, so that they are also able to identify technical deficiencies if any, in the operation of assisted units and suggest/initiate timely corrective action.
- (5) The term lending institutions should associate the major financing banks or at least the lead banks where there is a formal consortium arrangement, right from the stage of taking up the viability study.
- (6) Commercial banks should ensure participation in the joint meetings at an appropriate level. Representation at these meetings should be at sufficiently senior level.

1.49 The Ministry further stated that Government had always been conscious of the need to tackle the problem of industrial sickness. The Committee were informed that RBI had evolved the Health Code System (HCS) under which the financing banks could know the state of health of the units assisted by them. This is followed by necessary viability studies and rehabilitation programme in respect of those units which are potentially viable.

1.50 During evidence, a witness explained the ways in which sickness in an industrial unit is usually identified. He stated:

“There are some ways in which the sickness can be identified. These are:

- (i) Non-submission or incorrect submission of stock statements and other control statements,

- (ii) Inability to maintain the stipulated margin on a continuous basis,
- (iii) Widening difference between the outstanding balance and drawing power,
- (iv) Periodical interest debited remaining unrealised rendering the account irregular,
- (v) Attempt to divert sale proceeds through accounts of other banks,
- (vi) Frequent return of cheques or bills."

1.51 Explaining the work of Health Code System, the Ministry, in a written note, stated:—

"The Health Code System is meant for classification of borrowal accounts of industrial units by the concerned assisting banks under various categories so as to facilitate comprehensive and uniform credit monitoring." •

1.52 Elaborating further on the approach of the RBI, the Ministry stated:

"The Reserve Bank has also advised banks to introduce accountability at branch level, where symptoms of approaching sickness are first observed, for timely reporting to the controlling authority and initiating corrective action before sickness actually sets in."

1.53 According to Health Code Scheme the banks classify the units assisted by them as follows:—

- (i) Satisfactory
- (ii) Irregular
- (iii) Sick : Viable—Under nursing
- (iv) Sick : Non-viable/sticky
- (v) Advances recalled
- (vi) Suit filed accounts
- (vii) Decreed Debts

(viii) Bad and doubtful debts.

1.54 Out of the above 8 codes, the RBI monitors the code No. 3 and 4 only from rehabilitation angle.

1.55 The Ministry were asked to indicate whether there had been any case in heavy engineering sector where sickness was detected at an incipient stage. In a written reply the Ministry stated that it was not possible to indicate any specific case where sickness had been detected at an incipient stage because the necessary monitoring was being done at the level of commercial banks and financial institutions concerned; even the RBI was only monitoring upto the level of weak units.

1.56 When asked whether banks or financial institutions had been able to detect sickness at an incipient stage by following Health Code System, the Ministry stated that such details were available with the commercial banks and not with RBI.

1.57 However, during evidence one of the representatives of the Ministry stated as follows:

“Each bank, on each one of its borrowal accounts, is supposed to classify it to one of 8 categories which have been given to them. This is reviewed by each bank and their actions are also brought to the boards of the bank, once in 6 months, mainly with the intention of reviewing the performance. The RBI takes a general review of the Health Code System and they submit a report to the Government. This is the system presently in vogue.”

1.58 The Committee note that adequate instructions exist with the lending institutions, including banks, for detection of incipient sickness. The Committee also note that it is possible for lending institutions or the Government to come to conclusions about the degree of sickness in an industrial unit at a fairly early stage. The Committee have been informed that RBI has evolved a Health Code System which is meant to help the banks and financial institutions in categorising the sickness according to its degree of intensity. They, however, are disappointed to find that the Ministry was not able to furnish

any details about the actual gains of instructions so issued. The Committee are unhappy to note that the Ministry is not able to comment upon the efficacy of 'Health Code System', even though RBI submits regular reports on the subject.

1.59 Further, the Committee take a serious note of the fact that even after the Estimates Committee had notified their intention to examine position regarding industrial sickness in heavy engineering sector and had issued necessary questionnaire for the purpose, no satisfactory effort seems to have been made by the Ministry to obtain all relevant data from RBI and the Department of Banking.

(e) *Monitoring and Coordination*

Monitoring

1.60 According to the latest policy of Government for sick industries in October, 1981 and modified in February, 1982, the financial institutions and banks were asked to strengthen the monitoring system so that it became possible to take timely corrective action to prevent incipient sickness. Towards this end the financial institutions were instructed to arrange for assisting units to submit periodical returns for enabling them to monitor utilisation of loans and performance of individual units.

1.61 In a written note submitted to the Committee, the Ministry stated:

"Institutions have evolved intensive monitoring mechanism to facilitate detection of incipient sickness and to take timely corrective action for preventing sickness as also for ensuring smooth implementation of rehabilitation packages in respect of units which have already become sick but are potentially viable. The units are required to submit periodical progress reports during the implementation as also during the operational stages of the project/rehabilitation scheme. Periodical visits are made to the assisted units to make first hand assessment of the progress being achieved by the units in different spheres. Nominee directors are appointed on the Board of assisted units and reports received from them on the meetings of the Boards of Directors are subject to detailed scrutiny. The annual reports received from the company are analysed and any symptoms of incipient sickness thrown up

in the course of analysis are followed up with a view to curing them.”

The Ministry further stated:—

“Financial institutions have also set up separate calls for dealing with problems faced by sick units and finalisation of the rehabilitation package for them wherever necessary. All the jointly financed units are divided amongst IDBI, ICICI, CFCI and IRBI.....”

1.62 The Ministry were asked to give details about heavy engineering units which were generally prone to sickness. In a written reply the Ministry stated that data on sick industrial units was being maintained by RBI and that the data furnished by them under different categories did not indicate separately specific date regarding heavy engineering units -hat might be sick. They further stated that Government of India had taken a number of steps for the revival/rehabilitation of sick industrial units including those in the Heavy Engineering Sector.

1.63 When asked to indicate whether any case relating to heavy engineering industry where mismanagement has been identified as one of the major causes of sickness, had been brought to the notice of term-lending institutions or RBI, the Ministry stated that such information was not available.

1.64 In a written note the Ministry also stated that information regarding the magnitude of human resource employed in 47 sick heavy engineering units was not being maintained by RBI. In this context, however, the Ministry admitted during evidence that labour displacement as a result of modernization was visible even in heavy engineering sector.

1.65 However, when asked whether the financial institutions who have placed their nominees on the Board of Director of sick units had been submitting to the financial institutions periodical returns required to be submitted by them, the Ministry could not confirm this but reiterated that nominee directors are required to submit a report to their parent organisations after every meeting of the Board of Directors.

1.66 When, during evidence, it was suggested to the representative of the Ministry that nominee directors should be able to alert term-lending institutions about the day-to-day developments of the units concerned, he stated that the banks had been instructed to

monitor the accounts of the borrowing units on an ongoing basis and that they were doing so. He further stated that efforts were being made to ensure monitoring by RBI also.

1.67 Commenting on the possibility of sick units avoiding to inform the term-lending institutions about their sickness and the desirability of the Ministry of Industry having its own in-built machinery for obtaining the necessary information, the Secretary, Industry Ministry stated:

“The Department has no information of any kind on this. The only source of our information is through the banks. They are the ones who are in day-to-day contact with the accounts, day-to-day contact with the management where nominee directors of various term-lending institutions sit on the Boards of these companies. It is only through them that any information really comes. So, the Ministry or the Government in any Department is informed through the commercial banks or the RBI or the term lending institution about the mis-management of a particular company.”

Further clarifying the role of the Ministry of Industry, the Secretary stated:—

“While the health and the growth of the sector is the responsibility of the Department concerned, the sickness of the individual units can be due to mismanagement or any other problem and the only source of information is the bank.”

1.68 She further stated that while there were a large number of sick industries in a particular sector it was the responsibility of her Department because of the policy issues involved. In such cases, she added, the Department obtained the information of the growth of the industry through the associations of different industrial sectors, development councils and through contacts with the industry.

1.69 The Committee note that at the level of banks and financial institutions sufficient arrangements exist for monitoring the degree of industrial sickness in the country. However, the Committee finds it as irrational that such monitoring stops short of the Ministry of industry. It is the view of the Committee that periodical and neces-

sary fine tuning of policy would not be possible in the absence of monitoring of industrial sickness by the Ministry. The Committee would, therefore, recommend that the Ministry have its own information back-up for a periodical appraisal of the heavy engineering sector.

1.70 The Committee are disappointed also to note that neither RBI nor the financial institutions or banks maintain separate data in respect of sickness in heavy engineering sector. The Committee would, therefore re-emphasise the need for such data.

1.71 The Committee are dismayed to note that the Ministry of Industry has no authentic information pertaining to the magnitude of human resources employed in sick heavy engineering units as, again, such information was not being maintained by RBI. In the opinion of the Committee, this does not indicate a satisfactory state of affairs. The Committee would like to point out that sickness in the heavy engineering industry is fraught with adverse impact on the employment situation in the country. The Committee, therefore, feel that it is imperative for the Ministry/RBI to monitor this aspect so that timely action can be taken in avoiding widespread unemployment.

Need for Coordination

1.72 The rehabilitation of sick industrial units generally gets delayed because of constraints like excess labour force, insufficient infrastructural support and differences among the nursing partners regarding the extent of sacrifice to be shared by them. The policy statement of Government on the subject, issued in 1978, recognised that the revival of a sick units cannot be the responsibility of any single agency and that it can be achieved effectively only by a sharing of the responsibility by Central Government, State Governments, financial institutions, RBI and the management itself. The Ministry of Industry and the administrative Ministries of Government of India coordinate between the concerned agencies. Presently that coordination is effected through the Board for Industrial and Financial Reconstruction.

1.73 Comprehensive guidelines have also been issued to the banks for a proper coordination with financial institutions for speedy rehabilitation of sick industrial units, and the role of banks and financial institutions has been clearly spelt out. These instructions

are periodically updated in light of experience gained. In this context the Ministry informed the Committee in a written note:—

“State Level Inter Institutional Committee (SLIIC) have been set up at all the regional offices of the Department of Banking Operation and Development of RBI for the purpose of ensuring better coordination between the banks, the State Governments and Central and State Level Financial Institutions and other agencies.”

1.74 During evidence the difficulties faced by the sick industrial units in obtaining timely financial assistance from the banks and financial institutions were pointed to the representative of the Government. In this connection, the representative of RBI stated:—

“We, in the Reserve Bank of India are trying to see that there is coordination between banks and terms lending institutions. Recently, RBI has issued instructions that the bank which is to take up the maximum share of the term loans among the banks and/or the working capital finance should be identified and associated at the appraisal stage itself, so that the working capital needs are looked after, and that nobody need run about for that purpose. This is why we have single window concept. The attempt is to see that we are able to eliminate the type of delays referred to by the Hon’ble Member.”

1.75 The Committee note with satisfaction that adequate instructions for proper coordination between the financial institutions/banks, State Governments, Central Government and the RBI exist. They are, however, of the view that the aspect of inter-Ministry co-ordination needs to be strengthened.

CHAPTER—II

(a) *Process of Rehabilitation*

2.1 For rehabilitation of sick industrial units detailed instructions have been issued by the RBI to commercial banks from time to time in the matter of formulation and implementation of rehabilitation packages. According to these guidelines as soon as the banks/financial institutions become aware of the definite signs of sickness, necessary corrective action is to be initiated on the basis of a diagnostic study undertaken by them.

2.2 Clarifying the specific role played by financial institutions and the banks, the Ministry in a written note stated:

“The roles of banks and financial institutions have been clearly delineated. Thus, in a rehabilitation package for sick units (including heavy engineering units), the fresh capital expenditure is to be financed by the institutions; they are also expected to take up financing of cash losses budgetted in the package, margin money requirement and start-up expenses, besides finding the irregularities in the term loan accounts with them and rescheduling the debts as well as allowing concessional rates of interest on the existing/fresh term loans. As for the banks, they are expected to provide need-based working capital limits and share with the institutions on 50:50 basis the funds required for payment of pressing creditors/statutory liabilities/labour rationalisation cost; banks also fund the irregularities in the accounts with them and reschedule the outstanding dues as well as allow concessional rates of interest on the existing/fresh facilities. Information/notes on sick units are also required to be exchanged between banks and financial institutions.”

2.3 Where banks and financial institutions feel that despite their best efforts, it may not be possible to prevent an industrial unit from becoming sick or their efforts are unlikely to revive the sick undertaking, a detailed report is required to be submitted to the

Department of Industrial Development. This Department will thereafter refer the matter to the administrative Ministry concerned. However, the Ministry stated that in today's context the BIFR had amore significant role to play in combating sickness.

2.4 With regard to sorting out of the problems of a particular industry, the Government of India usually convenes meetings. In this connection an Inter-institutional Committee called Guidance Committee' constituted under the Chairmanship of Finance Secretary also meets periodically to review cases of sick units and to decide further course of action regarding them.

2.5 Asked during evidence what type of assistance that Guidance Committee was giving, the witness stated:

"For instance, the institution has drawn up a scheme. In the scheme of things, decisions also warrant that three or four banks should come together to make some sacrifice."

2.6 Asked whether it was a decision making Committee, the witness stated:

"It was a recommendatory committee."

2.7. Asked as to how many years that committee worked, the witness stated:

"The Guidance Committee is meeting even now."

With regard to approach adopted by banks etc. for rehabilitation of sick units, the Ministry, in a written note, stated:

"The banks' normal approach is to take up for rehabilitation only those units which are potentially viable or whose revival is desirable in the socio-economic context. The rehabilitation strategy is worked out on case-by-case analysis and it is oriented towards removing the causes that have in the first place brought about sickness. Thus, rehabilitation strategy would cover modernisation, removal of imbalances, captive power supply, change in management, agreement with labour (including retrenchment), financial restructuring, etc."

2.8 The Ministry further stated that financial institutions had set up separate cells for dealing with problems faced by sick units and finalisation of the rehabilitation package for them wherever necessary.

2.9 Asked whether any cell had been opened in Financial Institutions to deal with the problem of sickness in Heavy Engineering sector, the Ministry in a written reply to questionnaire issued by the Committee stated that financial institutions have separate Division of Rehabilitation Finance which handled problems of sickness in units belonging to all categories of industries.

2.10. In regard to units found potentially viable, a package of reliefs/concessions and sanction of additional assistance for rehabilitation/modernisation/diversification from various agencies is drawn up and finalised at joint meetings of the institutions and concerned banks/State Governments. The rehabilitation package formulated in this manner includes, *inter-alia*, various reliefs such as deferment of recovery of past interest dues, rescheduling of principal dues, reduction in rate of interest, waiver of penal interest commitment charges etc. If necessary, the package also includes reliefs from Central/State Government.

The Ministry further stated:

“RBI have issued circulars to all scheduled commercial banks containing broad framework of the reliefs and concessions which can be granted to sick units. Deviations from these parameters can be allowed on the merits of each case by RBI. The rehabilitation packages are finalised in the joint meetings of the term-lending institutions and financing banks. RBI also generally participates in these meetings. State Governments are also represented in these meetings, wherever considered necessary. In some critical cases meetings are also called by the Central Government, i.e. either by the Ministry of Industry or the Banking Division of the Ministry of Finance.”

2.11 Asked to state as to how many units in the Heavy Engineering Sector have been rehabilitated by the banks during the last 3 years in view of banks' approach, the Ministry in their reply stated that of the 47 heavy engineering units which have been identified as sick as on 31-12-87, 19 units have been identified to be potentially viable. Of these, 11 have been put under a nursing programme. 19 units are potentially non-viable and viability studies for the remaining 9 units have to be completed.

2.12 The Committee note with satisfaction that the financial institutions have separate Division of Rehabilitation Finance or handling the problems for sick units belonging to all categories of industries.

2.13 The Committee have been informed that out of 47 heavy engineering units identified as sick as on 31-12-87, 19 units have been categorised to be potentially viable and that of these 11 units have already been put under the nursing programme. In respect of 9 units viability studies were yet to be taken up. The remaining 19 units are reported to be potentially non-viable. The committee hope that the process of rehabilitating the remaining viable units will be expedited. Further, that simultaneous early action will be taken to wind up the unviable units.

(b) *Role of BIFR*

2.14 Government have enacted a comprehensive legislation namely 'The Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) which *inter-alia* provides for setting up of a quasi-judicial body designated as the Board for Industrial and Financial Reconstruction (BIFR) to look into the cases of companies which have become sick. The Board takes decision about their rehabilitation or other suitable action in each case, consider various alternatives for revival and rehabilitation of sick company, such as change of management or take over, amalgamation with other company or sale or lease of a part or whole of its undertaking or such other preventive, ameliorative and remedial measures, as may be appropriate.

2.15 Depositing before the Committee, the Secretary, while clarifying the role of BIFR *vis-a-vis* administrative Ministries, stated:

"The responsibility rests with the individual Ministries to see as to what is the extent of sickness and as to how it can be avoided, how the health of the sector can be improved and how growth can be maintained. But the individual sickness of a particular unit and its rehabilitation is the responsibility of the BIFR."

2.16 When asked as to who used to discharge the functions of the Board in regard to sickness and rehabilitation of industrial units before SICA came into force, the Secretary, Ministry of Industry state:

"Before the Act came into force, the banks and RBI used to report the cases of sickness to the Ministry of Industry and they would then refer those cases to the concerned administrative Ministries. Then there was a Guidance Committee under the chairmanship of the Finance Secretary which used to look into the problems of temporary nature. That committee used to meet and help in rehabilitation of that industry. This work is now being done

by the BIFR. This BIFR has certainly been given a focus as far as the revival of sick units is concerned."

2.17 In regard to coordination of BIFR with financial institutions, the Ministry stated:

"The Reserve Bank has issued detailed instructions to banks to ensure proper coordination in respect of BIFR cases. These instructions relate to reporting of sick industrial units to BIFR, formulation of schemes by Operating Agencies, implementation of the schemes sanctioned by the BIFR and to ensure effective and expeditious handling of BIFR cases. The banks were advised to nominate a suitable officer attached to Zonal/Regional Office at the headquarters of the BIFR for coordinating with the BIFR. Each bank has also to set up at its Head/Central Office a BIFR Cell which will be the focal point for dealing with all matters relating to BIFR cases.

Apart from continuous dialogue between BIFR and financial institutions/banks in respect of measures for revival of sick units, periodic meetings are held between Chairman, BIFR and Chief Executives of institutions/banks for exchange of views on problems faced. Besides, executives from institutions/banks have been deputed to BIFR for assisting in its day to day functions."

2.18. During evidence, Chairman, IDBI, while referring to the role of IDBI in rehabilitation of sick units, stated:

"While BIFR is a facilitating mechanism for them, I do not think financial institutions or banks can give up their major responsibility of looking after their own money."

2.19 During evidence the Committee got the impression that after the constitution of the BIFR, the Ministry's role was minimal. Explaining the position in this regard, the Secretary, Ministry of Industry stated:—

"The job of BIFR is precisely laid down in the Act. To that extent, they are wholly and squarely in command. They take decisions. I would not say that this is the only solution. We do not intend to say so. What we intend to say is that, according to the provisions laid down in SICA, dealing of sick individual units comes squarely within the purview of the BIFR. The units have to report their sickness and if not, there are penalties prescribed under the law. But the health of the sector as a whole,

not necessarily individual units, is the responsibility of individual Ministries. For instance, if my Ministry deals with engineering units and capital goods, it is the responsibility of my department to look after the trends that are taking place in the sector, the problems that are arising, the policy changes that are required to be made, any procedural bottlenecks that are taking place and to generally review the health of the sector so as to ensure its growth. Similar cases are with textiles, jute, steel and chemicals. There are different Ministries to look after the different sectors. The responsibility rests with the individual Ministries to see as to what is the extent of sickness and as to how it can be avoided, how the health of the sector can be improved and how growth can be maintained. But the individual sickness of a particular unit and its rehabilitation is the responsibility of the BIFR."

"I mentioned that SICA brings certain responsibility on the BIFR. It deals with individual units and its rehabilitation. But the Ministries are responsible for the health of the sector and that is what we are also doing. For instance, in the capital goods sector as a whole, we discovered that there was a downward trend in the growth the capital goods which cover heavy engineering industries also. There are many industries which are incurring cash losses. There were problems in marketing, in obtaining raw materials. My Ministry took several steps and measures, conducted large number of studies and took policy decisions which have lead towards a complete upturn and upswing in the growth of the sector. Sectors like machine tools, which is a part of the heavy engineering sector, where showing minus growth rate in 1985-86; they have now a growth rate of almost 15 per cent and that is largely due to the action taken by the Ministry."

2.20 When it was pointed out that though BIFR, is a *quasi-judicial* body, its directions do not have mandatory powers, and since it was not obligatory, how could this type of body be entrusted with the sole responsibility of revival of the sick industries, the witness stated:—

"I am not really competent to comment on the role and powers of BIFR. I can only say that not sickness as a whole, not the causes of sickness, not the sector's specific problems. Industrial growth are the responsibility of BIFR. Whether or not a unit is viable or otherwise, and if not viable.

what can be an appropriate rehabilitation package, that responsibility is certainly put on the BIFR; it has to discharge that, but not alone. It is not the repository of all information, but it has consultation and interaction with concerned agencies and then decide. That is the onyl way it can work."

2.21. Asked to state whether the sick units in the heavy engineering sector conform to the definition under Section 3(1) (o) of the SICA, 1985, how many cases relating to heavy engineering industry had been brought before the BIFR and what remedial measures had been taken with regard to revival thereof, and whether any cases are pending decision with BIFR, the Ministry in their reply stated that the definition of sick units under SICA covers all heavy engineering sector like units in other sectors of industry.

2.22. Out of the 47 sick units in the heavy engineering sector, 24 units madea reference to the BIFR. 8 cases have been approved by the BIFR under Section 17(2). In 2 cases the rehabilitation schemes have been sanctioned by the BIFR. In one case winding up has been recommended. The remaining 12 cases are pending with the BIFR. Out of these 12 cases ,in 1 case the draft scheme of rehabilitation has been' circulated. The details about financial assistance involved in all these cases are not available.

2.23. In this context the Ministry informed the Committee as under:

"All the 3 sick units in Heavy Engineering Industry in IDBI's portfolio fall under the purview of BIFR. Of these, rehabilitation packages have been approved in respect of 2 units which are under implementation. The rehabilitation package in respect of the third unit is under consideration of ICICI which has been appointed as operating agency of BIFR. The unit is under nursing programme of institutions and of late its operations are showing signs of improvement. The full impact of these efforts would be known over a period of time when the benefits envisaged from the scheme are expected to be realised."

2.24. The Ministry further stated:

"The concerned administrative Ministries in the Central Government may, if it has sufficient reasons to believe that any industrial company has become for the purpose of this Act, a sick industrial company, make a reference in respect of such company to the BIFR for determination of the

measures which may be adopted with respect of such company. The Board can also make *suo moto* inquiries."

2.25. In reply to a question as to in how many cases such references have been made to BIFR by the Ministry in respect of heavy engineering industry and whether any inquiry had been made *suo moto* by the Board in respect of heavy engineering industry, the Ministry stated that no such reference has been made since statutorily the concerned companies are expected to give the intimation of sickness to the BIFR directly. No *suo moto* inquiry has been taken up by BIFR in respect of heavy engineering industries.

2.26 The Committee note that the Government has enacted a comprehensive legislation namely the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) which inter alia provides for setting up of quasi-judicial body designated as the Board for Industrial and Financial Reconstruction (BIFR) to look into the cases of companies which have become sick. The Board became operational in May, 1987. It takes decisions about the rehabilitation of such companies as have become sick. It initiates suitable action in each case, or considers various alternatives for revival and rehabilitation of sick companies.

2.27 The Committee note that 24 Sick heavy engineering units have been referred to BIFR of which 6 cases have been approved by it under Section 17(2) of SICA. While in 2 cases rehabilitation schemes have been sanctioned, in one case the winding up of the unit has been recommended. 12 cases are pending with the BIFR. The Committee hope that the Board will expedite its final action in respect of these remaining units. Underlining the desirability of according priority to the rehabilitation of sick heavy engineering units the Committee recommend that the Government may take up the matter with BIFR for prompt action.

2.28 The Committee have separately examined BIFR and have made a number of recommendations for its effective functioning. They expect that the Ministry of Industry would continuously monitor the functioning of BIFR.

NEW DELHI;
3rd December, 1990

12 Agraahana, 1912 (S)

JASWANT SINGH,
Chairman.
Estimates Committee

APPENDIX

Statement of Recommendations/Observations

Sl. No.	Para No.	Recommendations/Observations
1	2	3
1	1.9	<p>The Committee note with concern that as many as 45 heavy engineering units in the private sector and 2 such units in the joint sector are sick. On the basis of information supplied by the Ministry, the Committee find that an amount of Rs. 210.73 crores, and Rs. 9.88 crores, in the private and joint sector units respectively, advanced as bank credit, is looked up. Apart from this, it is obvious that a much larger portion of national resource, involving investments made in the equity of these units, by a large number of small investors is also either lying idle or is being utilised sub-optimally. The Committee welcome the establishment of Board for Industrial and Financial Reconstruction under Sick Industrial Companies (Special Provisions) Act, 1985. However, at the same time the Committee is of the view that the Government should demonstrate much greater seriousness about the magnitude of industrial sickness, particularly in the heavy engineering sector which is a core section. Only by so doing can investments made in this sector by the public directly, or through public financial institutions, be optimally and efficiently utilised. This, in the opinion of the Committee, has become all the more necessary in view of scarcity of resources.</p>
2	1.10	<p>The Committee have been informed that of the 47 units on the sick list viability studies had been carried out only in respect of 38 units. In</p>

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respect of the remaining 9, no specific time-frame had been laid down. The Committee are unable to appreciate this: why ought viability studies of these units, without which no remedial action is possible, and which should be undertaken as fast as possible, not be subject to a time schedule. The Committee would like to impress upon the Government its views on the subject alongwith the desirability of carrying out such studies promptly. Accordingly, therefore, the Committee recommend that a specific time limit be fixed for the purpose.

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The Committee also note that the incidence of sickness in the heavy engineering sector is markedly higher in two States, viz., Maharashtra and West Bengal. The Committee would, therefore, recommend that Government may study the situation in these two States in consultation with the State Governments concerned in order to ascertain whether any special problems are encountered by the heavy engineering industry in these States. The Committee would await the results of such study.

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The Committee have been informed that general policy of the Government was not to take over or nationalise sick industrial units any more. The Committee agree with this view of the Government. There might, however, be unusual circumstances warranting take over or nationalisation of a unit. This policy pronouncement of the Government has, therefore, to recognise a necessary caveat.

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The Committee note that problems relating to marketing, finances, labour, obsolescence of machinery, and management deficiencies mainly account for sickness in the heavy engineering sector. The Committee note with satisfaction

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that the Government, of late, is encouraging heavy engineering units to diversify their products mix. However, the Committee is not in agreement with the stand taken by the Ministry that the responsibility for solving labour related problems rested solely with State Governments. The Committee would like the Ministry to take due initiatives in this regard. The Committee would, therefore, recommend that the Ministry of Industry should convene tripartite meetings of management, labour and the State Governments periodically. This, the Committee, feel will promote a common outlook on the problem.

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The Committee note that financial problems arise essentially from managerial inadequacies. Since most of the heavy engineering units depend on banks and other public financial institutions for their credit requirements, the Committee would recommend that directions be issued to banks and financial institutions like IDBI for maintaining a close watch on the performance of such units. In this context, the Committee would also recommend that the definition of a 'sick unit' as adopted under SICA, 1985, should be reviewed early with a view to facilitating early identification.

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The Committee note with satisfaction the steps taken in recent years for a technological upgradation in the heavy engineering sector. The Committee would, however, like the effect of these schemes to be reviewed periodically. The Committee would also like the Ministry to examine whether the various existing incentives for technology upgradation are adequate.

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The Committee would like the Government to examine afresh whether its existing project

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appraisal techniques and procedures merit reform. Perceived social benefits cannot replace economic viability of a project.

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The Committee are also of the view that steps are required to be taken to ensure a regular supply of basic raw materials, especially steel and coal, at reasonable price to heavy engineering units. Departmental undertakings should make payments in time, ensure more favourable infrastructural facilities and provide finance for technological upgradation.

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The Committee note that adequate instructions exist with the lending institutions, including banks, for detection of incident sickness. The Committee also note that it is possible for lending institutions or the Government to come to conclusions about the degree of sickness in an industrial unit at a fairly early stage. The Committee have been informed that RBI has evolved a Health Code System which is meant to help the banks and financial institutions in categorising the sickness according to its degree of intensity. They, however, are disappointed to find that the Ministry was not able to furnish details about the actual gains of instructions so issued. The Committee are unhappy to note that the Ministry is not able to comment upon the efficacy of 'Health Code System', even though RBI submits regular reports on the subject.

Further, the Committee take a serious note of the fact that even after the Estimates Committee had notified their intention to examine position regarding industrial sickness in heavy engineering sector and had issued necessary questionnaire for the purpose, no satisfactory effort seems to have been made by the Ministry

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- to obtain all relevant data from RBI and the Department of Banking.
- 11 1.59 The committee note that at the lend of banks and financial institutions sufficient arrangements exist for monitoring the degree of industrial sickness in the country. However, the Committee finds it as irrational that such monitoring stops short of the Ministry of Industry. It is the view of the Committee that periodical and necessary fine tuning of policy would not be possible in the absence of monitoring of industrial sickness by the Ministry. The Committee would, therefore, recommend that the Ministry have its own information back-up for a periodical appraisal of the heavy engineering sector.
- 12 1.70 The Committee are disappointed also to note that neither RBI nor the financial institutions or banks maintain separate data in respect of sickness in heavy engineering sector. The Committee would, therefore, re-emphasise the need for such data.
- 13 1.71 The Committee are dismayed to note that the Ministry of Industry has no authentic information pertaining to the magnitude of human resources employed in sick heavy engineering units as, again, such information was not being maintained by RBI. In the opinion of the Committee, this does not indicate a satisfactory state of affairs. The Committee would like to point out that sickness in the heavy engineering industry is fraught with adverse impact on the employment situation in the country. The Committee, therefore, feel that it is imperative for the Ministry/RBI to monitor this aspect so that timely action can be taken in avoiding widespread unemployment.

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14	1.75	The Committee note with satisfaction that adequate instructions for proper coordination between the financial institutions/banks. State Governments, Central Government and the RBI exist. They are, however, of the view that the aspect of inter-Ministry coordination needs to be strengthened.
15	2.12	The Committee note with satisfaction that the financial institutions have separate Division of Rehabilitation Finance for handling the problems of sick units belonging to all categories of industries.
16	2.13	The Committee have been informed that out of 47 heavy engineering units identified as sick as on 31.12.87, 19 units have been categorised to be potentially viable and that of these 11 units have already been put under the nursing programme; in respect of 9 units viability studies were yet to be taken up. The remaining 19 units are reported to be potentially non-viable. The Committee hope that the process of rehabilitating the remaining viable units will be expedited. Further, that simultaneous early action will be taken to wind up the unviable units.
17	2.26	The Committee note that the Government has enacted a comprehensive legislation namely the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) which <i>inter alia</i> provides for setting up of quasi-judicial body designated as the Board for Industrial and Financial Reconstruction (BIFR) to look into the cases of companies which have become sick. The Board became operational in May, 1987. It takes decisions about the rehabilitation of such companies as have become sick. It initiates suitable action in each case, or considers various alternatives for revival and rehabilitation of sick companies.

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The Committee note that 24 Sick heavy engineering units have been referred to BIFR of which 6 cases have been approved by it under Section 17(2) of SICA. While in 2 cases rehabilitation schemes have been sanctioned, in one case the winding up of the unit has been recommended. 12 cases are pending with the BIFR. The Committee hope that the Board will expedite its final action in respect of these remaining units. Underlining the desirability of according priority to the rehabilitation of sick heavy engineering units, the Committee recommend that the Government may take up the matter with BIFR for prompt action.

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The Committee have separately examined BIFR and have made a number of recommendations for its effective functioning. They expect that the Ministry of Industry would continuously monitor the functioning of BIFR.

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA
SECRETARIAT PUBLICATIONS**

Sl. No.	Name of Agent	Sl. No.	Name of Agent
ANDHRA PRADESH		UTTAR PRADESH	
1.	M/s. Vijay Book Agency, 11-1-477, Mylargadda, Secunderabad-500 361.	12.	Law Publishers, Sardar Patel Marg, P.B. No. 77, Allahabad, U.P.
BIHAR		WEST BENGAL	
2.	M/s. Crown Book Depot., Upper Bazar, Ranchi (Bihar).	13.	M/s. Madimala, Buys & Sells, 123, Bow Bazar Street, Calcutta-1.
GUJARAT		DELHI	
3.	The New Order Book Company, Ellis Bridge, Ahmedabad-380 006. (T. No. 79065)	14.	M/s. Jain Book Agency, C-9, Connaught Place, New Delhi, (T. No. 351663 & 350806)
MADHYA PRADESH		15.	M/s. J.M. Jaina & Brothers, P. Box 1020, Mori Gate, Delhi-110006 (T. No. 2915064 & 230936).
4.	Modern Book House, Shiv Vilas Place, Indore City. (T. No. 35289).	16.	M/s. Oxford Book & Stationery Co., Scindia House, Connaught Place, New Delhi-110001. (T. No. 3315308 & 45896)
MAHARASHTRA		17.	M/s. Bookwell, 2/72, Sant Nirankari Colony, Kingsway Camp, Delhi-110 009. (T. No. 7112309).
5.	M/s. Sunderdas Gian Chand, 601, Girgaum Road, Near Princes Street, Bombay-400 002.	18.	M/s. Rajendra Book Agency, IV-DR59, Lajpat Nagar; Old Double Storey, New Delhi-110 024. (T. No. 6412362 & 6412131).
6.	The International Book Service, Deccan Gymkhana, Poona-4.	19.	M/s. Ashok Book Agency, BH-82, Poorvi Shalimar Bagh, Delhi-110 033.
7.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-400 001.	20.	M/s. Venus Enterprises, B-2/85, Phase-II, Ashok Vihar, Delhi.
8.	M/s. Usha Book Depot, 'Law Book Seller and Publishers' Agents Govt. Publications, 585, Chira Bazar, Khan House, Bombay-400 002.	21.	M/s. Central News Agency Pvt. Ltd., 23/90, Connaught Circus, New Delhi-110 001. (T. No. 344448, 322705, 344478 & 344508).
9.	M & J Services, Publishers, Rep- resentative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor, 68, Jyotiba Fuele Road Nalgaum, Dadar, Bombay-400 014.	22.	M/s. Amrit Book Co., N-21, Connaught Circus, New Delhi.
10.	Subscribers Subscription Services India, 21, Raghunath Dadaji Street, 2nd Floor, Bombay-400 001.	23.	M/s. Books India Corporation Pub- lishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110 052. (T. No. 269631 & 714465).
TAMIL NADU		24.	M/s. Sangam Book Depot, 4378/4B, Murari Lal Street, Ansari Road, Darya Ganj, New Delhi-110 002.