

REPORT
OF
THE
WORKING GROUP
ON
REHABILITATION
OF
SICK SSI UNITS

CONTENTS

<u>No.</u>	<u>Page</u>
Chapter I : Introduction	01 - 03
Chapter II : Present Position of Sickness in Small-Scale Industries Sector	04 - 05
Chapter III : Rehabilitation of Sick SSI Units - Review of Existing Guidelines and Recommended Changes	06 - 19
Chapter IV : Summary of Major Recommendations	20 - 24
Annex I : Extant Guidelines on Rehabilitation of Sick SSI Units	25 - 27
Annex II : Memorandum	28 - 30
Annex III : Overall Industrial Sickness 1991-99	31
Annex IV : Amount of Outstanding Loan to SSI and No. of Sick SSI Units	32
Annex V : Identification of Potentially Viable, Non-Viable Units and Outstanding Amounts	33
Annex VI : Maharashtra Zilla Udyog Mitra	34 - 35
Annex VII : District-level Sick Unit Rehabilitation Committee in Maharashtra	36 - 38

CHAPTER I

Introduction

1.1 Till February 1987, the rehabilitation of sick SSI units found potentially viable was governed by the same guidelines issued for rehabilitation of large and medium scale units. Although sickness in large, medium and small industrial units exhibits many common features, any approach to sickness in SSI sector has to reckon with the relative weakness of such units to withstand difficulties as also the distinction between the small scale units and tiny sector units and further that between tiny sector units and units in the decentralized sector comprising artisans and village and cottage industries units. With this background, the need for separate guidelines in regard to rehabilitation of sick units in the SSI sector with specific reference to definition of sick SSI unit, viability norms, incipient sickness as also reliefs and concessions from banks / financial institutions for implementation of rehabilitation packages in the case of potentially viable units was examined by a Committee constituted by Reserve Bank of India under the Chairmanship of Shri A. Hasib, the then Executive Director of the Bank. Based on the recommendations of this Committee, RBI issued detailed guidelines in February 1987 to all scheduled commercial banks for rehabilitation of sick SSI units. These guidelines relating to the definition of sick units, nature of reliefs and concession, etc. underwent certain changes on the basis of recommendations made by High Level Committees viz. Nayak Committee and Kapur Committee appointed by Government of India and Reserve Bank of India respectively to look into the issues affecting the orderly growth of small scale industries in the country. The guidelines issued to banks for rehabilitation of potentially viable sick SSI units are given in Annex I.

1.2 In order to deal with the problems of coordination for rehabilitation of sick SSI units, State Level Inter Institutional Committees (SLIICs) chaired by the Secretary, Industry of the concerned State Government have been constituted by RBI in the late 1970s in all the States. It provides a forum for adequate interface between the State Government officials and State level institutions on the one side and the term lending institutions and banks on the other. Despite the efforts of this forum, which also includes representation from SSI Associations to coordinate rehabilitation process, the performance was not up to the expectations.

1.3 Of late, the incidence of sickness in SSI is showing an increasing trend. Of the total sick units identified, only about 6.10 percent were found potentially viable. This has become a major area of concern which called for a re-look at the present guidelines on sick SSI units. It is under these circumstances that the meeting of the Group of Ministers held on August 16, 2000 had inter alia decided that RBI should draw up revised detailed, transparent and non-discretionary guidelines for the rehabilitation of current sick and potentially viable SSI units.

Constitution of the Working Group

1.4 The Reserve Bank of India in November 2000 had appointed the Working Group on Rehabilitation of Sick SSI Units under the Chairmanship of Shri S. S. Kohli, Chairman, Indian Banks' Association to review the existing guidelines in regard to rehabilitation of sick units in the small scale industrial sector and to recommend the revision of the guidelines making them transparent and non-discretionary. The composition of the Working Group and its terms of reference are given in Annex II.

Methodology

1.5 The Working Group held three meetings - two in Mumbai in December 2000 and January 2001 and one in New Delhi in May 2001. In these meetings, it had deliberated on the issue of sickness in the SSI sector in detail. It had also obtained the views of a few National and State level SSI Associations, SFCs and SIDBI and also had reviewed the existing arrangements for rehabilitation of sick SSI units. The suggestions/views given by the various organizations have been considered and incorporated at appropriate paragraphs while finalizing the report.

CHAPTER II

Present Position of Sickness in Small-Scale Industries Sector

2.1 The position regarding sick SSI units vis-à-vis sick non-SSI units, sick SSI units to total SSI units and the viability position of sick SSI units in the portfolios of scheduled commercial banks during the years 1991 to 1999 is furnished in Annex III, IV and V respectively.

2.2 It may be observed from Annex III that though the number of sick SSI units has increased from 2.21 lakhs in 1991 to 3.06 lakhs in 1999, its percentage to total sick units including medium and large industries remained around 99. However, while the amount outstanding against sick SSI units increased from Rs. 2,792 crores to Rs. 4,313 crores during the corresponding period, its percentage to total amount locked up in sick units has declined from 25.9 to 22.1.

2.3 Annex IV reveals that the percentage of number of sick SSI units to total SSI units shows a declining trend from 11.34 in 1991 to 9.80 per cent in 1999. Similarly, the amount outstanding against sick SSI as a percentage to total outstanding against SSI sector has declined from 15.56 to 8.35. The decline in percentages is not because of the reduction in the number of sick units and the outstanding thereagainst but because of the increase in the number of total SSI units and the outstanding credit against them.

2.4 It may however be observed from Annex V that the number of units identified as potentially viable as a percentage to total sick SSI units has decreased from 7.3 in 1991 to 6.1 in 1999.

2.5 The figures reported above do not reveal the actual status of sickness since the same include only those units which had obtained credit facilities from banks. A recent diagnostic survey conducted by the Office of the Development Commissioner (SSI) revealed that 86.7 per cent of the units have not obtained any bank finance. The units found potentially viable formed only a meagre percentage of total sick units. This has necessitated a re-look at the existing guidelines and drawing up of revised detailed transparent and non-discretionary guidelines for rehabilitation of potentially viable sick SSI units.

CHAPTER III

Rehabilitation of Sick SSI Units - Review of Existing Guidelines and Recommended Changes

3.1 Many causes have been attributed to sickness in SSI sector. The major among the internal causes are limited financial resources, lack of organizational, financial and management skills and expertise, diversion of funds to unrelated business areas and diversification/expansion before stabilization of existing activity and units going in for mergers before break even, etc. The external factors are non-availability of power supply, shortage of raw materials, marketing difficulties, delayed and inadequate credit, labour problems, globalization and liberalization of the economy, obsolete technology, inadequate infrastructure, etc. In most of the cases, sickness is a combination of different causes.

Incipient Sickness

3.2 It is important to take measures to arrest sickness at the incipient stage itself. The Reserve Bank of India has issued guidelines on incipient sickness, its detection and follow-up action required by banks. RBI has also circulated a list of warning signals of incipient sickness among banks. Some of the major warning signals of incipient sickness are:

- i) Continuous irregularities in cash credit / overdraft accounts such as inability to maintain stipulated margin on continuous basis or drawings frequently exceeding sanctioned limits, periodical interest

debited remaining unrealized;

- ii) Outstanding balance in cash credit account remaining continuously at the maximum;
- iii) Failure to make timely payment of installments of principal and interest on term loans;
- iv) Downward trend in credit summations;
- v) Frequent return of cheques or bills;
- vi) Steep decline in production figures;
- vii) Downward trend in sales and fall in profits;
- viii) Larger and longer outstanding in bill accounts;
- ix) Failure to pay statutory liabilities; and
- x) Utilization of funds for purposes other than running the units.

The managements of the units financed should inform the banks when they face problems which could lead to sickness. The branch officials also should keep a close watch on the operations in the account. The asset classification system introduced in banks will be useful for detecting advances which are deteriorating in quality well in time.

3.3 When an advance slips into the category of sub-standard, as per RBI norms, the branch should make full enquiry into the financial health of the unit, its operations, etc. and take remedial actions. Such an action will facilitate the branch to know whether there are signs of incipient sickness in the unit so that timely help can reach the unit. The progress of the unit also should be kept under close

watch, and additional finance may be provided, if warranted, so as to bring back the units to healthy track. Besides, the branch level officials should also keep a watch on the unit when any of the warning signals of incipient sickness circulated by RBI is noticed. They should help the unit in sorting out difficulties which are non-financial in nature and require assistance from outside agencies like Government departments / undertakings, Electricity Boards, etc.

Definition of sick SSI unit

3.4 According to the extant definition, an SSI unit is considered as sick when

- (i) Any of its borrowal accounts has become 'doubtful' advance i.e. principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding 2 ½ years; and
- (ii) There is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years.

In the cases of the tiny/decentralised sector also, a unit may be considered as sick if it satisfies the above definition. However, in the case of such units, if it is difficult to get the financial particulars, a unit may be considered as sick if it defaults continuously for a period of one year in payment of interest or installments of principal and there are persistent irregularities in the operation of its credit limit with the bank.

3.5 The Nayak Committee was of the view that sickness cannot be said to have commenced unless any of the advances granted to the unit has first entered the 'doubtful' classification and thus emanated the present definition of a sick SSI unit.

3.6 The Kapur Committee suggested changes in the definition of sick unit as it felt that the waiting period to declare a unit as sick, i.e. an account to be non-performing for 2 ½ years, is too long and counter-productive. The Working Group agrees with this view as the present waiting period of 2 ½ years for declaring a unit as sick as per the norms is indeed too long resulting in deterioration of the financial position of the unit to a stage difficult for revival.

3.7 The Working Group has reviewed the position of potentially viable units vis-à-vis total sick SSI units for the past nine years. The data reveals that the percentage of units found potentially viable to total sick SSI units was in the range of 5.8 and 9.1.

3.8 The question arises why only a few units are identified as viable and why the other units slip into the category of non-viable. The Group has observed that by the time a unit is declared as sick as per the present norms, its financial position deteriorates to such an extent that it becomes difficult to revive the same. Many a suggestion has been received for a change in the existing definition.

3.9 The Working Group feels that it is necessary to reduce the period for remaining a borrowal account in the sub-standard category for declaring it as sick and recommends that the definition of a sick SSI unit may be changed as under:

A small-scale industrial unit is considered as sick when

- a) If any of the borrowal accounts of the unit remains substandard for more than six months, i.e. principal or interest, in respect of any of its borrowal accounts has remained

overdue for a period exceeding one year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard is reduced in due course;

or

- b) There is erosion in the net worth due to accumulated losses to the extent of 50 per cent of its net worth during the previous accounting year;

and

- c) The unit has been in commercial production for at least two years.

The proposed change in definition would increase the number of sick units substantially but will enable banks to take corrective action at the early stage for revival of the unit.

Viability of sick SSI units

3.10 Presently, as per norms specified by RBI, a sick unit is considered as potentially viable, if it would be in a position, after implementing a relief package spread over a period not exceeding five years from the commencement of the package from banks, financial institutions, Government (Central/State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period of restructured (past) debts should not exceed seven years from the date of implementation of the package. In the case of tiny/decentralised sector units, the period of reliefs/concessions and repayment period of restructured debts are two and three years respectively.

3.11 Suggestion has been received for revising upward the

present time norm of five/seven years for implementing a relief package/repayment of restructured debt. The Working Group feels that with the suggested change in the definition of a sick SSI unit no change in the extant norms of viability is considered necessary.

3.12 In the case of tiny and decentralized units, the Group considered a change in the repayment period of their restructured debts. It is recommended that the present repayment period of two and three years for restructured debts for tiny/decentralized sector respectively may also be changed so as not to exceed seven years as is available at present in the case of other SSI units.

3.13 The assessment of viability of sick unit is very crucial to the rehabilitation package and it is the judgment of the credit institutions which is very vital in the matter. Suggestions have been received for setting up of committees at State level / District level to look into the sickness and viability and preparing rehabilitation packages to be extended to units by banks, financial institutions, Government departments, Electricity Boards, etc. The Working Group feels that even if such a forum was to be set up, its decisions cannot be made binding on the banks / Financial Institutions(FIs). Based on the norms specified for viability of the sick unit, it will be for the banks / FIs to decide whether a sick SSI unit is likely to be viable or not.

3.14 The Nayak Committee had mentioned about the functioning of the Zilla Udyog Mitra in Maharashtra under the Chairmanship of the District Collector with the General Manager, District Industries Centre (DIC) and officials from Zilla Parishad, lead bank, State-level Corporations and State Electricity Board as Members. This is a forum of co-ordination for the promotion

of SSI units in the districts. There is also a 'sick unit rehabilitation committee' at the district level, which is headed by the District Collector and has the General Manager, DIC as its Member-Secretary. This Committee has representatives from the lead bank, other leading banks in the district along with the concerned bank and leading associations working in the district. This Committee which meets once a month was set up by the Govt. of Maharashtra for taking up nursing programmes at the right time so that rehabilitation can be easier and smooth. These fora can be adopted by other State Governments with necessary modifications to suit their conditions. Details of the Zilla Udyog Mitra Scheme and the District-Level Sick Unit Rehabilitation Committee are furnished in Annex VI and VII respectively.

3.15 The existing norms for grant of reliefs and concessions which can be extended by banks to potentially viable sick SSI units are:

Category of loans/advances	Extent of concessions
(i) Working Capital	1.5% below the prevailing fixed/prime lending rate, wherever applicable
(ii) Funded Interest Term Loan	Interest-free
(iii) Working Capital Term Loan	1.5% to 3% below the prevailing fixed/prime lending rate, wherever applicable
(iv) Term Loans	Not more than 2% (Not more than 3% in the case of tiny/decentralized sector units) below the document rate
(v) Contingency Loan Assistance	At the concessional rate allowed for working capital assistance

3.16 The Working Group studied the suggestions brought to it for changing the norms, mainly in interest rates from that of below PLR to PLR rates and also of charging some interest on funded interest term loan. With the change in the definition of sick SSI units, the assistance is expected to reach the potentially viable units at an earlier stage of sickness than as per the existing definition and with longer repayment schedules. The Group therefore recommends that additional working capital limits may be extended at a rate not exceeding the PLR. No other change is considered necessary in the RBI guidelines in this regard.

3.17 Units becoming sick on account of wilful mismanagement, wilful default, unauthorized diversion of funds, disputes among partners/promoters, etc. should not be given any concessions/reliefs by way of rehabilitation package and banks should take action for recovery of its dues. The views of the lending FIs/banks in regard to wilful mismanagement of funds/defaults may be treated as final. For this purpose, the following definition of 'wilful default' as given by RBI will hold good:

- (a) deliberate non-payment of dues despite adequate cash flow and good net worth;
- (b) siphoning off of funds to the detriment of the defaulting unit;
- (c) assets financed have either not been purchased or have been sold and proceeds have been misutilized;
- (d) misrepresentation/falsification of records;
- (e) disposal/removal of securities without the knowledge of the FI/bank; and
- (f) fraudulent transactions by the borrower.

3.18 Once a unit is identified as sick as per the norms a decision on its viability should be taken quickly and made known to the unit/others at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable'/ 'viable'. While identifying and implementing the rehabilitation package, banks/FIs may be asked to do 'holding operation' for a period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such 'holding operation'.

3.19 All units put under nursing programme may not require all the concessions spelt out in paras 3.15 and 3.16 for their revival. The entrepreneurs demand maximum relief, although the future projections warranted only a lower level of concession. The Group, therefore, reiterates the RBI instructions that the relief/concessions specified are not to be given in a routine manner and that they have to be decided by the concerned bank/ financial institution based on its commercial judgment and depending on the merits of each case. The banks have also the freedom to extend reliefs/ concessions beyond the parameters in cases where it is found necessary. In fact, the viability study itself should contain a sensitivity analysis in respect of the risks involved that in turn will enable firming up of the corrective action matrix.

3.20 Banks have been advised by RBI to set up cells at important regional centres, besides the cell at Head Office, to deal with sick industrial units and provide expert staff, including technical personnel. The Group reiterates the above guidelines and suggests that such cells be set up at all the regional centres.

SLIIC

3.21 In order to deal with the problems of coordination for rehabilitation of sick SSI units, State-Level Inter Institutional Committees (SLIICs) have been constituted in late 1970s by RBI in all the States. It provides a forum for adequate interface between the State Government officials and State level institutions on the one side and the term lending institutions and banks on the other. This Committee has the Secretary, Industries of the State Government as Chairman and in-charges of regional offices of RBI, RPCD as convenors. Besides banks and financial institutions and Government Officials, representatives of local SSI Associations are also invited to the meetings of the forum. SLIIC has been envisaged as an advisory forum and it has no backing of any statute for enforcing its decisions. The committee, besides providing a useful forum for exchange of information and discussions of the problems faced by the small-scale industrial units and small entrepreneurs, also deals with

- i) Coordination between banks and financial institutions ;
- ii) Provision of adequate infrastructural facilities to industrial units ;
- iii) General problems relating to grant of credit to such units ;
- iv) Monitoring timely sanction of working capital to units which have been provided with term loans by SFCs; and
- v) General problems of industries and review of sickness in the SSI sector based on the data furnished by banks.

3.22 A Sub-committee of SLIIC also has been constituted to look into the problems of individual sick SSI units and suggest rehabilitation packages.

3.23 Though SLIIC could be a better forum to handle and sort out the problems of SSI including sickness, in effect its performance has not been upto the expectations. Only in a few States the meetings of the forum are held regularly. A number of factors are responsible for its sub-optimal performance. It is basically the best forum to deal with the problems of sick SSI units. This forum requires revitalization by holding its meetings as per schedule and with active involvement of officials of State Governments, banks, financial institutions who are empowered to take decisions. Mostly the meetings of the forum are not held regularly due to pre-occupation of the Chairman, i.e. the Secretary, Industries Department of the State Government. The Group therefore recommends that in case of the Chairman's inability to attend a scheduled meeting due to pre-occupation, the Regional Director, RBI may chair the meeting of the SLIIC. Every effort should be made to hold the meetings at the prescribed periodicity. Participation from banks/financial institutions should be from the decision-making cadres so that the deliberations of the forum could be useful.

3.24 The Kapur Committee has recommended conversion of SLIIC into statutory bodies under a special statute and grant of adequate statutory and administrative powers to enforce their decisions on bankers and financial institutions and other agencies concerned with the rehabilitation of potentially viable SSI units. As stated in earlier paragraphs of this report, the ultimate decision on the viability of the unit is left to the financing bank/institution for reasons stated therein. Under such a situation, if the decision of the financing bank on viability of the unit is not in conformity with that of SLIIC, it cannot be imposed.

The Working Group is therefore not in favour of recommending the conversion of SLIIC into a statutory body. Rather, the Group favours a three-tier set up with the SLIIC at the apex level, a sub-committee of SLIIC and district-level committees on the lines of the Zilla Udyog Mitra and Sick Unit Rehabilitation Committee in Maharashtra working under it. Once a decision on nursing a unit has been taken, it should be the responsibility of the sub-committee(s) of the SLIIC to push it through. The Group also feels that while SLIIC as well as the district-level committees should meet at least once in a quarter, the desired frequency of meetings of the sub-committee of the SLIIC will be once in two months.

Other issues

3.25 The SSI Associations in their interface with the Working Group highlighted delay in payment of SSI dues for goods supplied by the units to Government departments and medium and large industries as one of the major problems faced by SSI units. Though the "Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertakings [Amendment] Act" was amended in 1998 bringing important changes to improve the situation, it has not helped the SSI units in getting its dues. The Association suggested for giving more teeth to the Act or introducing any other measures for reducing the delay in obtaining payments by SSI units.

3.26 The banks have been advised by RBI in October 2000 to fix separate sub-limits while renewing/sanctioning credit limits to their large corporate borrowers enjoying working capital limits of Rs.10 crore and above from the banking system, within the overall limits, specifically for meeting payment obligations in respect of purchases from SSIs either on cash basis or on bill basis. This measure is expected to solve the problem of delayed payment to some extent.

3.27 The SSI units whose payments have been delayed by the larger units/Government departments should take advantage of the amended provisions of "Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertakings [Amendment] Act, 1998". The Government may consider bringing in suitable legislation for adequate penal provision in case of delayed payments as well as take steps for popularizing without recourse factoring services. Further, on the issue of the rights of FIs/banks in case of defaults, the Working Group also favours suitable amendment in the Banking Regulations Act, 1949 on the lines of Section 29 of the State Financial Corporations Act, 1951 (as amended) which empowers the financing institution to take over the management or possession or both of the financed unit as well as gives it the right to transfer by way of lease or sale and realize the property if the unit makes any default in repayment of any loan or advance or any instalment thereof.

3.28 As per the extant RBI guidelines, the promoter's contribution towards the rehabilitation package is fixed at a minimum of 10 per cent of the additional long-term requirements under such a package in case of tiny sector units and at 20 per cent of such requirements for other units. The Working Group feels that there is a need for increasing the promoters' contribution towards rehabilitation from the present limits. Further, in regard to concessions and reliefs made available to sick units, banks should incorporate a 'Right of Recompense' clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the FIs and banks should be recouped from the units out of their future profits/cash accruals.

3.29 The SSI Associations during their interface with the Working Group had put forward suggestions for introduction of Limited Partnership Act, a smooth exit policy for sick units not found potentially viable, etc. The Working Group has not dealt with these suggestions, as they do not have a direct bearing on the terms and references of the Group.

CHAPTER IV

Summary of Major Recommendations

4.1 The branch officials should keep a close watch on the operations in the accounts and take adequate measures to arrest sickness at the incipient stage itself. Additional finance may be provided, if warranted, so as to bring back the units to healthy track. (para 3.2 and 3.3)

4.2 A large number of SSI units identified as sick were not found potentially viable. The percentage of potentially viable units to total sick SSI units during the last few years was in the range of 5.8 to 9.1. The present waiting period of 2 ½ years for declaring a unit as sick as per the norms is too long resulting in deterioration of the financial position of the unit to a stage difficult for revival. As such there is a need to modify the criteria for classification of sickness in the SSI Sector. (para 3.6, 3.7 and 3.8)

4.3 The definition of a sick SSI unit may be changed as:

- a) If any of the borrowal accounts of the unit remains substandard for more than six months, i.e. principal or interest, in respect of any of its borrowal accounts has remained overdue for a period exceeding 1 year. The requirement of overdue period exceeding one year will remain unchanged even if the present period for classification of an account as sub-standard is reduced in due course;

OR

- b) There is erosion in the net worth due to

accumulated losses to the extent of 50 per cent of its net worth during the previous accounting year;

and

- c) The unit has been in commercial production for at least 2 years.

This would enable banks to take action at an early stage for revival of the units. (para 3.9)

4.4 With the suggested change in definition of the sick SSI unit, no change in the extant norms of viability is considered necessary. (para 3.10 and 3.11)

4.5 The present repayment period of two and three years for restructured debts for tiny/decentralized sector respectively may be changed so as not to exceed seven years as is available at present in case of other SSI units. (para 3.12)

4.6 Based on the norms specified for viability of the sick unit, it will be for the banks/FIs to decide whether a sick unit is likely to be viable or not. (para 3.13)

4.7 The Zilla Udyog Mitra Scheme and the District-level Sick Unit Rehabilitation Committees in Maharashtra can be adopted by other State Governments with necessary modifications to suit their conditions. (para 3.14)

4.8 While the other existing norms for grant of reliefs and concessions which can be extended by banks to potentially viable sick SSI units may continue, additional working capital limits may be extended at a rate not exceeding the PLR. (para 3.16)

4.9 Units becoming sick on account of wilful

mismanagement, wilful default, unauthorized diversion of funds, disputes among partners / promoters, etc. should not be considered for rehabilitation and steps may be taken for recovery of banks dues. The views of the lending FI/banks in regard to wilful mismanagement of funds/defaults may be treated as final. (para 3.17)

4.10 Viability of a unit should be decided quickly and made known to the unit and others concerned at the earliest. The rehabilitation package should be fully implemented within six months from the date the unit is declared as 'potentially viable'/ 'viable'. While identifying and implementing the rehabilitation package, banks/FIs may be asked to do 'holding operation' for a period of six months. This will allow small-scale units to draw funds from the cash credit account at least to the extent of their deposit of sale proceeds during the period of such 'holding operation'. (para 3.18)

4.11 The relief and concessions specified are not to be given in a routine manner and have to be decided by concerned bank/ financial institution based on the commercial judgment and merits of each case. Banks have also the freedom to extend relief and concessions beyond the parameters in deserving cases. In fact, the viability study itself should contain a sensitivity analysis in respect of the risks involved that in turn will enable firming up of the corrective action matrix. (para 3.19)

4.12 The instructions issued to banks by RBI to set up cells at regional centres, besides at Head Office, to deal with sick industrial units and providing expert staff is reiterated. (para 3.20)

4.13 The functioning of SLIC forum may be revitalized by holding its meetings as per schedule and with active participation by officials who are empowered to take decisions. In case of the

Chairman's inability to attend a scheduled meeting due to pre-occupation, the Regional Director, RBI may chair the meeting of the SLIIC. (para 3.23)

4.14 The ultimate authority on credit decision should be the bank and not any other agency. The Working Group is, therefore, not in favour of recommending the conversion of SLIIC into statutory body. Rather, the Group favours a three-tier set up with the SLIIC at the apex level, a sub-committee of SLIIC and district-level committees on the lines of the Zilla Udyog Mitra and the Sick Unit Rehabilitation Committee in Maharashtra working under it. Once a decision on nursing a unit has been taken, it should be the responsibility of the sub-committee(s) of the SLIIC to push it through. The Group also feels that while SLIIC as well as the district-level committees should meet at least once in a quarter, the desired frequency of meetings of the sub-committee of the SLIIC will be once in two months. (para 3.24)

4.15 The SSI units whose payments have been delayed by the larger units/Government departments should take advantage of the amended provisions of "Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertakings [Amendment] Act, 1998". The Government may consider bringing in suitable legislation for adequate penal provision in case of delayed payments as well as take steps for popularizing without recourse factoring services. Further, on the issue of the rights of FIs/banks in case of defaults, the Working Group also favours suitable amendment in the Banking Regulations Act, 1949 on the lines of Section 29 of the State Financial Corporations Act, 1951 (as amended) which empowers the financing institution to take over the management or possession or both of the financed unit as well as gives it the right to transfer by way of lease or sale and realize the property if the unit makes any default in repayment of any loan or advance or any instalment thereof. (para 3.27)

4.16 As per the extant RBI guidelines, promoter's contribution towards the rehabilitation package is presently fixed at a minimum of 10 per cent of the additional long-term requirements under such a package in case of tiny sector units and at 20 per cent of such requirements for other units. The Working Group feels that there is a need for increasing the promoters' contribution towards rehabilitation from the present limits. Further, in regard to concessions and reliefs made available to sick units, banks should incorporate a 'Right of Recompense' clause in the sanction letter and other documents to the effect that when such units turn the corner and rehabilitation is successfully completed, the sacrifices undertaken by the FIs and banks should be recouped from the units out of their future profits/cash accruals. (para 3.28)

Sd/-
(**S. S. Kohli**)
Chairman

Sd/-	Sd/-	Sd/-
(S. K. Tuteja)	(Vepa Kamesam)	(Dr. A. K. Khandelwal)
Member	Member	Member

Sd/-	Sd/-	Sd/-
(O. N. Singh)	(R. P. Gupta)	(S. S. Gangopadhyaya)
Member	Member	Member

Sd/-
(**A. V. Sardesai**)
Member-Secretary

Extant Guidelines on Rehabilitation of Sick SSI Units

Definition of sick SSI unit

A small-scale industrial unit is considered as sick when

- (i) Any of its borrowal accounts has become 'doubtful' advance i.e. principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding 2 ½ years; and
- (ii) There is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its net worth during the preceding two accounting years.

In the cases of the tiny/decentralised sector also, a unit may be considered as sick if it satisfies the above definition. However, in the case of such units, if it is difficult to get financial particulars, a unit may be considered as sick if it defaults continuously for a period of one year, in the payment of interest or instalments of principal and there are persistent irregularities in the operation of its credit limit with the bank.

Viability of sick SSI units

A sick unit may be considered potentially viable, if it would be in a position, after implementing a relief package spread over a period not exceeding five years from the

commencement of the package from banks, financial institutions, Government (Central/State) and other concerned agencies, as may be necessary, to continue to service its repayment obligations as agreed upon including those forming part of the package, without the help of the concessions after the aforesaid period. The repayment period of restructured (past) debts should not exceed seven years from the date of implementation of the package. In the case of tiny decentralised sector units, the period of reliefs/concessions and repayment period of restructured debts will be two years and three years respectively. Based on the norms specified above, it will be for the banks/financial institutions to decide whether a sick SSI unit is potentially viable or not. The viability study of the unit should be carried out and decision on rehabilitation or otherwise taken expeditiously on receipt of complete information on all relevant aspects from the management of the unit. It is of utmost importance to take measures to ensure that sickness is arrested at the incipient stage itself.

The management of the units should be advised about their primary responsibility to inform the banks if they face problems which could lead to sickness and to restore the units to normal health. The branch officials who are familiar with the day-to-day operations in the borrowal accounts should also identify the early warning signals by making visits to the units and initiate corrective steps promptly.

Rehabilitation of sick SSI units

Norms for grant of reliefs and concessions which can be extended by banks to potentially viable sick SSI units are as under:

Category of Loan/Advances	Extent of concessions
(i) Working Capital	1.5% below the prevailing fixed/prime lending rate, wherever applicable
(ii) Funded Interest Term loan	Interest-free
(iii) Working Capital Term loan	1.5% to 3% below the prevailing fixed/prime lending rate, wherever applicable
(iv) Term Loans	Not more than 2% (Not more than 3% in the case of tiny/ decentralised sector units) below the document rate.
(v) Contingency Loan Assistance	At the concessional rate allowed for working capital assistance

- *Reliefs/concessions indicated above are not to be given as a matter of routine in all cases. It is for the banks/ financial institutions to decide on the nature and extent of concessions necessary/warranted within these parameters, depending upon the merits of each case.*
- *In order to speed up the process of preparation and implementation of packages, the banks have been given freedom for extension of reliefs/concessions beyond the parameters in cases where it is absolutely necessary.*

MEMORANDUM

Reserve Bank of India hereby appoints a Working Group to review the existing guidelines and to recommend the revision of guidelines making them transparent and non-discretionary for the rehabilitation of current sick and potentially viable SSI units.

Composition of Working Group

S/Shri

- | | | |
|----|--|----------|
| 1. | S. S. Kohli
Chairman
Indian Banks Association
Stadium House
81-83, Veer Nariman Road
Mumbai | Chairman |
| 2. | Vepa Kamesam
Managing Director
State Bank of India
Central Office
Mumbai | Member |
| 3. | Dr. A. K. Khandelwal
Executive Director
Bank of Baroda
Central Office
3, Walchand Hirachand Marg
Ballard Pier
Mumbai | Member |

4. O. N. Singh
Executive Director
Bank of India
Express Towers
14th floor, Nariman Point
Mumbai
Member
5. R. P. Gupta
Executive Director
Canara Bank
Head Office
12, J. C. Road
Bangalore
Member
6. S. K. Tuteja
Development Commissioner (SSI)
Ministry of SSI & ARI
Government of India
Nirman Bhavan, 7th floor
Maulana Azad Road
New Delhi
Member
7. S. S. Gangopadhyaya
Chief General Manager
Industrial Export and Credit Deptt.
Central Office
Reserve Bank of India
Mumbai
Member

8. A. V. Sardesai
Chief General Manager
Rural Planning and Credit Deptt.
Central Office
Reserve Bank of India
Mumbai
- Member-Secretary

Terms of reference

- a) To review the existing guidelines in regard to rehabilitation of sick units in the small scale industrial sector; and
- b) To recommend the revision of guidelines making them transparent and non-discretionary for the rehabilitation of current sick and potentially viable SSI units.

The Secretariat of the Committee will be provided by the Rural Planning and Credit Department, Central Office, Reserve Bank of India, Mumbai.

Sd/-
(**Jagdish Capoor**)
Deputy Governor

Reserve Bank of India
Central Office
Mumbai

Dated : November 25, 2000

Overall Industrial Sickness 1991-99

(Rs. in crore)

As at the end of March	No. of Sick/Weak Units			Outstanding Amount		
	Both SSI & Non-SSI	SSI	Non-SSI	Both SSI & Non-SSI	SSI	Non-SSI
1991	223809	221472 (98.95)	2337 (1.05)	10768 (100.0)	2792 (25.9)	7976 (74.1)
1992	247924	245575 (99.06)	2349 (0.94)	11533 (100.0)	3101 (26.9)	8432 (73.1)
1993	240700	238176 (98.95)	2524 (1.05)	13134 (100.0)	3443 (26.2)	9691 (73.8)
1994	258952	256452 (99.03)	2500 (0.97)	13696 (100.0)	3680 (26.9)	10016 (73.1)
1995	271206	268815 (99.12)	2391 (0.88)	13739 (100.0)	3547 (25.8)	10192 (74.2)
1996	264750	262376 (99.10)	2374 (0.90)	13748 (100.0)	3722 (27.1)	10026 (72.9)
1997	237400	235032 (99.00)	2368 (1.00)	13787 (100.0)	3609 (26.2)	10178 (73.8)
1998	224012	221536 (98.89)	2476 (1.11)	15682 (100.0)	3857 (24.6)	11825 (75.4)
1999	309013	306221 (99.10)	2792 (0.90)	19464 (100.0)	4313 (22.1)	15151 (77.9)

Annex IV

Year (end March)	No. of units (in lakh)	In the books of scheduled commercial banks				
		Amount outstanding against SSL (Rs. in crores)	No. of sick SSL units (In lakh)	Amount outstanding against sick SSL (Rs. in crores)	Percentage of	
					4 to 2	5 to 3
1	2	3	4	5	6	7
1991	19.48	17938	2.21	2792.04	11.34	15.56
1992	20.82	18939	2.46	3100.67	11.81	16.37
1993	22.46	20975	2.38	3442.97	10.60	16.41
1994	23.88	23978	2.56	3680.37	10.72	15.35
1995	25.71	29175	2.69	3547.16	10.46	12.16
1996	27.24	34246	2.62	3721.94	9.62	10.87
1997	28.57	38196	2.35	3609.20	8.23	9.45
1998	30.14	45771	2.22	3856.64	7.37	8.43
1999	31.21	51679	3.06	4313.48	9.80	8.35

Identification of Potentially Viable, Non-viable Units and Outstanding Amounts
(Rs. in crore)

Sick / Weak SSI Units 1991-99													
As at the end of March	Potentially Viable			Non-Viable			Viability yet to be decided		Total		Of viable units those put under nursing		
	Units	O/S Amount		Units	O/S Amount		Units	O/S Amount		Units		O/S Amount	
1991	16,140 (7.3)	693		202,998	1,997		2,334	102		221,472	2,792	13,224	550
1992	19,210 (7.8)	729		223,336	2,256		3,029	116		245,575	3,101	13,289	539
1993	21,649 (9.1)	799		213,804	2,507		2,723	137		238,176	3,443	12,218	582
1994	16,580 (6.5)	686		234,265	2,842		5,607	152		256,452	3,680	11,376	522
1995	15,539 (6.5)	598		249,375	2,842		3,901	107		268,815	3,547	10,371	449
1996	16,424 (6.3)	636		240,168	2,944		5,784	142		262,376	3,722	11,026	422
1997	16,220 (6.9)	479		213,014	3,032		5,798	98		235,032	3,609	10,539	322
1998	18,686 (8.4)	456		199,634	3,297		3,216	104		221,536	3,857	13,063	281
1999	18,692 (6.1)	377		271,193	3,746		16,336	190		306,221	4,313	12,759	195

The figures in bracket is the percentage to total number of sick units.

Annex VI

Maharashtra Udyog Mitra

The 'Udyog Mitra' was set up by the Government of Maharashtra in 1979 for serving as a 'Single Point Primary Contact' for the benefit of entrepreneurs and industrialists. Taking into consideration the ever-widening role of Udyog Mitra and increased complexity of tasks it has to undertake, the State Government constituted the Udyog Mitra Committee in 1984 under the Chairmanship of Development Commissioner (Industries) with Chief Executives of the industrial development organizations as its members.

The Udyog Mitra offers general guidance to entrepreneurs seeking to set up industries in respect of various rules and regulations, policy matters, approvals and clearances which have to be necessarily complied with at several stages during the progress of a project. It also provides assistance for submission of formal requests to different organizations and in following up such requests for appropriate sanctions. Udyog Mitra consists of officers drawn from organizations like the State Industrial & Investment Corporation of Maharashtra Limited (SICOM), Maharashtra Industrial Development Corporation (MIDC), Maharashtra State Electricity Board (MSEB), Maharashtra State Financial Corporation (MSFC) and Directorate of Industries whose main function is to liaise on behalf of the entrepreneurs with the respective organizations to improve co-ordination among them so as to speed up the process of decision-making in respect of grant of various facilities covered under their jurisdiction.

On the analogy of the State Level Udyog Mitra Committee, the State Government also constituted in 1984 a Zilla Udyog Mitra (ZUM) for each district. This is a co-ordinating mechanism to strengthen the District Industries Centre in effectively performing their role of promoting small units in the districts and for extending meaningful help to entrepreneurs in a time-bound manner.

The Committee is composed of the Collector of the district as the Chairman and officials from Zilla Parishad, lead bank, State Level Corporations, State Electricity Board and District Industries Centre. The main functions of the Zilla Udyog Mitra are to prescribe time limits for various clearances and sanctions such as N.A. permission, sanction of power, allotment of land, NOC from local/Municipal/Town Planning Authorities, registration under Factories Act/Boiler Act, disbursement of finance, incentives, etc.

The Committee meets once a month for a review and the problems which cannot be resolved at district level are forwarded to State-Level Udyog Mitra Committee.

CIRCULAR NO. 19/88

No. SUC/88/B-6928

GENERAL

Directorate of Industries
New Administrative Building
Opp. Mantralaya
Bombay : 400 032

Dated : 17/2/88

To

The General Manager
District Industries Centre (All)

**Sub: Formation of "Sick Unit Rehabilitation
Committee"
at District Level**

With a view to give a helping hand to the units which have gone sick in the State of Maharashtra, it has been decided to have a compact Committee under the Chairmanship of the District Collector for taking up nursing programmes at the right time so that rehabilitation can be easier and smooth. Up till now there has been no proper monitoring of Sick Units in the districts, even there has been no formal dialogue also with the financial institutions in this regard. Hence the

District Committee's role would be (1) to identify the sick units at proper time, (2) initiate dialogue with the financial institutions to work out on-the-spot solutions and (3) give monthly report to the "Sick Unit Cell" of the Directorate of Industries, H.O. Bombay. The constitution of the Committee is as follows:

Collector and Dy. Commissioner (Industries)	- Chairman
General Manager, DIC	- Member-Secretary
Manager, Lead Bank	- Member
Branch Manager/Regional Manager, MSFC	- Member
Manager, Main Branch, State Bank of India	- Member
Three Members of Leading Industrial Associations working in the district	- Members

To render proper help to the needy genuine Sick Units, it is but essential to meet once in 2 months, assess the situation, help in initiating dialogue between the Sick Units and the financial institutions and finally monitor the position on monthly basis by sending reports on or before 10th of each month to the "Sick Unit Cell", Directorate of Industries, H.O. Bombay.

Compliance of these orders should be reported to the Sick Unit Cell within a month's time positively say on or before 10/3/89. Collector and General Manager, District Industries Centres are hereby requested to select 3 members from the existing leading industrial associations working within the district.

This body will recommend to the Zilla Udyog Mitra matters related to immediate ground-level action for revival of Sick Industries so that concerned action from all agencies can start simultaneously.

Monthly reporting to the "Sick Unit Cell", Directorate of Industries, H.O. Bombay will be done separately.

The Committee will function as an adjunct of Zilla Udyog Mitra.

Sd/-

(Y.L. Rajwade)

Development Commissioner (IND)