

CHAPTER 7

REHABILITATION, NURSING AND MONITORING SYSTEM FOR
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Introduction

Sickness affects not only the liquidity of the concerned unit but that of the banks/financial institutions creating thus a direct impact on the national economy through credit allocation.

The effects on the banks/financial institutions with a large amount of credit outstanding in sick industries are venomous.

They result in :

- (i) erosion of profitability by interest written — offs, loans, written down, revenue losses from reduced interest rates,
- (ii) increase share of management responsibilities. Banks often appoint senior personnel as nominee directors in the Board of Directors of the assisted unit. This enhances the overhead expenses,
- (iii) non-availability of funds for recycling of funds and thus optimal profitability, and
- (iv) there is loss of opportunity costs as funds blocked in sick industrial units could be more effectively and profitably deployed in normal commercial loaning.

The national economy also suffers as funds blocked in sick units are not available for financing development schemes/projects. New projects/units with

growth potentials incorporating advanced technology are often denied adequate credit support due to resources constraints imposed on the banks by their failure to recycle their funds.

Then, why in India do commercial banks/financial institutions attempt to revive and rehabilitate sick industrial units instead of simply liquidating their collateral and writing off the residue as a bad debt ?

This is particularly because these banks/financial institutions have been nationalised and therefore should fulfil their large social responsibilities in assisting and promoting small, medium and large industries. As a consequence, social as well as economic reasons justify the concept of industrial rehabilitation the objective of which is to restore the capacity of generating surplus.

As for human being, the treatment of industrial sickness consists of two important parts : preventive and curative.

Section I

Prevention of Sickness

The financing banks have social responsibility as well as their role in ensuring prevention of incidence of sickness extends over different stages of credit disbursement, pre-sanction and post disbursement.

Proper care at the pre-sanction stage is very much necessary. Both over - financing and under -

financing of a unit need to be avoided, and credit has essentially to be need based.

Timely disbursement of sanctioned credit is another significant factor that needs proper attention. When a borrower approaches for enhancement of the facility, the needs have to be reviewed quickly and decisions are required to be taken specially. Undue delay in this regard may adversely affect the borrowers' plan and when additional funds are placed at the disposal of the borrower after delay, bank's interest may also be at stake.

At the post-disbursal stage, banker's ability to prevent sickness depend on :

- (i) close watch on the operations of the unit through ledger accounts,
- (ii) timely receiving of inventory/stock statement and physical verification thereof, and
- (iii) monitoring of the proper end - use of the bank finance.

The banker must notice the warning signals from the behaviour of the borrowal accounts which may include :

- (i) continuing irregularity in the accounts including non-payment of periodical instalments and interest,
- (ii) abnormal returning of bills and cheques,
- (iii) declining turn-over of account, and
- (iv) declining production sales and profit figures, etc.

For noticing these warning signals, bankers should record on a register of units showing above signals giving name and activity of the unit, limits sanctioned, balance outstanding, sanctioning authority, date of identification, reasons of sickness, action initiated and results achieved. The timely identification of sickness at the incipient stage is a must.

The Information System as suggested by the Tandon Study Group and the Chore Committee should also be reinforced to detect early warning signals of the sickness and for taking timely corrective measures.

But in case a unit reaches the stage of sickness because of the negligence of the banker/financier or their incapability to detect the sickness at its early stages, the only treatment is a curative one.

Section II

Rehabilitation, Nursing and Monitoring of sick units

Once the technico-economic study is done and a decision is taken to revive i.e. to rehabilitate the unit, additional funds may be given for nursing the unit. Once the unit is nursed, close watch over the functioning of the unit is a necessity for the banker to ensure the end - use of additional funds, i.e. the monitoring system.

Commercial banks have been rehabilitating and monitoring sick units for the last two decades but

surprisingly, the number of sick units as well as the credit outstanding in these units keeps on increasing. This means that their actual system of rehabilitation and monitoring of sick units have some defects and therefore, it is important for us to suggest a new approach towards industrial sickness.

Section III.

New Approach Towards Industrial Sickness

I - Some Identified Problems

Industrial sickness affects many persons/organisations and to prescribe a rehabilitation plan, the same should give their agreements/collaborations. These agreements/collaborations are sought mostly from the employees, the shareholders, the creditors, commercial banks, financial institutions, the Central/State Government and the Reserve Bank of India.

Each one of these persons/institutions plays a very important role in the implementation of the rehabilitation programme and any action to be taken in this regard should be a result of their consultations and a co-ordination of their actions.

It is to be noted that generally commercial banks tackle the problem of industrial sickness only when it is too late. Since the signals are not detected in the right time, they become further symptoms and later causes, leading the units to complete sickness. To this, it is to be added that the decision to revive a unit is also taken quite late.

Despite the Tandon and Chore working Groups' commendations, some borrowers still create problems

for bankers by delayed and incomplete submission of returns.

As a consequence of the above, there is a need to adopt a new approach towards industrial sickness.

II - The New Approach

From now, at all their organisational levels, commercial banks have to comprehend that sickness of industrial units is an organic process, that has distinctive stages and it is feasible for the bank to identify sickness at its early stage. If they assume efficiently their responsibilities, they can do much better to ensure the health of their borrowers.

The following suggestions may help in improving the existing system of rehabilitation, nursing and monitoring of sick units.

- (i) Commercial banks should rarely attempt the nursing of sick units all by themselves. Right from now they should co-ordinate their actions with term lending institutions in the rehabilitation of the potentially viable units. This does not mean ignoring the services rendered by the Industrial Reconstruction Corporation of India (I R C I) in the rehabilitation and consultancy stages to potentially viable sick industrial units in matters relating to technical, financial, marketing and management aspects.

What is to be noted here is that commercial banks or financial institutions should not act separately but their actions should always be

co-ordinated for better results. It is a wrong belief that bankers should always give money to the sick units. Some funds by sale of some non-essential assets such as land, buildings, equipment and vehicles may be generated and thereby reduce the additional bank credit required by the sick unit,

- (ii) before any further assistance is considered, the essential thing will be to change the management atleast on a temporary basis. The management of a well run company could be requested to assume the responsibility for managing the assisted unit for some years atleast,
- (iii) if the assistance of the unit is to be continued by way of a loan, the loan should carry moratorium for a few years. For financing working capital of the sick unit, commercial banks should give relaxation of the margin requirements,
- (iv) in case of rehabilitation, representative of labour should be taken into confidence. Unless the collaboration of workers is sure, any rehabilitation plan would be inefficient,
- (v) commercial banks, instead of rehabilitating several units make them less sick, should select only those which are really potentially viable. This will help them to get some units back to healthy conditions quickly,
- (vi) it is also necessary that the commercial banks' existing organisation and management

information system would also have to be examined in order to make necessary changes and improvement to facilitate smooth and successful functioning of the modified system. This modified system will imply redefining the banker - borrowers relationships and to widening the role of branch, regional, zonal and Head Office in credit management. For the requirement of the new system, the training of field managers and staff for better credit management efficiency is a must , and

- (vii) commercial banks should classify their industrial accounts above a cut-off point (say above a credit limit of Rs. 10 lakhs) on a five point scale ranking from healthy to chronically sick, the intermediate stages being tending towards sickness, incipient sickness and sick using the concept of Multiple Discriminant Analysis applied to financial ratios.

The exercise of classifying accounts according to their health condition will serve two purposes : firstly, it will keep the banker informed of the growth of the unit financed by him and secondly it will help him to identify the accounts whose health is poor. This statistical exercise should be done regularly.

In actual practice, there is no legislation which enables commercial banks in the public sector to recall their advances as soon as the current ratio is less than one and the Debt - Equity ratio worsening. Even if, in the judgement of the banker, the situation continues worsening, he is not given the power to call back his credit. Therefore, even if the signals/symptoms

and causes are detected in time, there is no disciplinary action to be taken except to have a talk with the borrower who will naturally promise to do better. In one of the foreign banks operating in Bombay, such legislation exists and borrowers are therefore very disciplined. This practice should be extended to the public sector banks in certain cases.

In spite of the above recommendations, commercial banks should call for penalising the management responsible for making an industrial unit sick by siphoning off its funds.

Finally, it can be observed that the increasing number of industrial sick units is, among other factors, nothing but the consequence of a poor system of credit monitoring. Because of the filling of many forms manually, the top manager is not provided in time with the necessary information. The consequence of which is the late decision to revive the sick unit. In order to overcome these defects, the Electronic Data Processing should be introduced at the credit monitoring level.

Once introduced in banks, the Electronic Data Processing will help bankers to get the necessary information in time and to increase therefore their productivity. However, it will not help to measure their performances in credit management.

With a view to measuring the efficiency in credit management, it has been felt necessary to formulate an Index of Credit Management Efficiency. This introduces the last part of the study relating to the Index of Credit Management Efficiency.