



A DETAILED DISCUSSION ON SICK INDUSTRIAL UNITS OF PUNJAB

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Abstract

Any developing or underdeveloped nation's economic growth is greatly influenced by its small-scale industries. These sectors serve the dual purposes of addressing the issue of unemployment and preventing economic concentration in the hands of a select few.

These sectors promote independence, self-sufficiency, and teamwork. They facilitate the efficient reallocation and appropriate use of the resources that are available. Village artisans rely heavily on the traditional village and cottage industries for their livelihood. These industries provide rural residents with a range of employment options.

Small businesses have been given a significant place in India, where they account for almost 40% of all private sector production. The ability of small businesses to create jobs is far more important. India currently runs what is arguably the biggest small industry program in any developing nation due to its sheer size. Over the years, numerous government policies and initiatives have attempted to support the expansion of small industry as a priority sector.

It has been noted that the SSI industry has expanded quickly between 1991 and 2006. The SSI sector's output has grown at a compound annual growth rate of 18.48%. Over the period, the employment rate has grown at a rate of 4.64 percent. The SSI sector's performance in terms of exports, which grew at a rate of 26.47% during the reviewed period, is its most noteworthy accomplishment. Particularly since the implementation of the liberalization policy, the domestic portion of the large-scale sector and foreign multinational corporations have become competitors of the SSI sector. In India, the SSI sector's growth in production slowed in the 1990s when compared to previous eras.

Introduction

When the country was divided in 1947, Punjab inherited a weak industrial base. As of August 1947, Punjab had 572 registered factories employing 37,486 people. The majority of these factories were ginning and pressing plants, followed by general and electrical engineering, smelting iron and steel, rolling and rerolling, hosiery, aluminum, cooper, and brass, milling wheat flour and rice, and so forth.

A closer look at the circumstances immediately following independence reveals that consumer goods like hosiery, handloom spinning, and weaving were the primary focus of small-scale



industries. Not long after, Batala town began to become the nation's hub for machine tools. Small industrial production began to shift toward producer goods, such as machine tools, general, and electrical goods, by the end of 2000. Two factors led to this structural shift in the small industrial production pattern. First, the small industry was moving away from producing goods like handlooms and hosiery and toward consumer goods like electrical fans, bicycle parts, sewing machines, and their parts.

Second, export revenue and import-saving goods like machine tools and sporting goods were becoming more and more significant. Given that small businesses accounted for 81.8 percent of the state's industrial sector's total net output in 1990–91, it is evident that the small sector dominated Punjab's industrial sector in the early 1990s. While the large sector's share of India's net industrial output was 49.9%, Punjab's share was only 18.2%. Small businesses were further divided into two categories: household and non-household. About 34% of the 81.8 percent total net output came from the household sector, compared to just 16.9% at the national level. This indicates that, in contrast to India, the household sector dominated the Punjabi economy.

Punjab had 14,827 registered, operational small-scale industrial units by the end of 2000, compared to 1,59,000 nationwide. In this regard, Punjab held a 9.33 percent share. 1,23,544 people were employed by these modest units, which had an investment of Rs. 81.54 crore. When it came to fixed investment and employment in this sector nationwide, Punjab's registered small sector accounted for 7.74 and 7.48 percent of the total. This sector's gross value of output in Punjab was Rs. 243.39 crore, or roughly 9.35% of the total amount produced in India. In Punjab, these units employed nine people on average, and their output was Rs. 1.78 lakh per unit.

Despite its significance, the issue of illness plagues the small-scale sector. A natural byproduct of a market economy is illness. When an industrial unit's financial situation is unsatisfactory and gets worse every year, it is deemed sick. It experiences losses, and over time, its capital reserves might be depleted. The organization might not be able to pay its debts if its current liabilities exceed its current assets. The small-scale industrial sector is currently plagued by a high death rate and an increasing rate of illness. Recent estimates indicate that the percentage of sick units in small-scale industries varies by state, ranging from 10% to 50%.

According to the Economic Survey 2001-02, 249630 people, or 7.4% of all SSIs, were ill at the end of 2001. The number of SSIs has grown from 9.60 lakh in 1981–1982 to 33.70 lakh in 2000–01. As of 2000-01, there were 249630 sick SSIs, up from 25342 in 1981-82. Since 1981, the proportion of sick units to all SSIs has been steadily rising. 3134 units in Punjab were deemed ill, with Ludhiana housing the majority of the industrial sick units, followed by the districts of Amritsar, Jalandhar, and Bathinda. Ludhiana is home to roughly 23% of all sick units. (Refer to the R.B.I. report).



It doesn't seem like any research of this kind has been conducted in India since liberalization, using discriminant analysis to predict industrial sickness using data on financial and macroeconomic variables. It is anticipated that the current study will aid in early industrial sickness prediction and corrective action.

The goal of the current study is to determine the causes of industrial sickness in Punjab's small-scale industries and to create a model of industrial sickness based on macroeconomic variables and financial ratios. Two sections of analysis have been conducted for this study. An attempt has been made to determine the relationship between the different factors and illness in the first section. One hundred respondents were given a questionnaire, and based on their responses, an effort was made to determine the relationships between a number of factors, including age, education, the type of operations, the type of unit, and illness. Five years prior to illness, two group linear-discriminant analysis was employed in the second section. The discriminant function has been created independently for every year. A sample of sixty industrial units—thirty sick and thirty healthy—was selected for this purpose. Sales, total sales, and capital employed were used to gauge the size.

Based on their significance in past research and their applicability to the current study, fifty-four financial ratios were selected. The headings of liquidity, activity, solvency, and profitability were used to group these ratios. In addition to financial ratios, six macroeconomic variables were chosen to determine their impact. These financial ratios and macroeconomic variables were subjected to discriminant analysis, and the models' predictive accuracy was calculated. The financial ratios were also subjected to the student t-test in order to determine whether there was a difference between their mean values.

Findings based on Entrepreneurial Point of View

Additionally, the study found that sole proprietorships are more likely to experience illness than partnership firms or units, while urban units are less likely to experience illness than rural units. Their limited capital resources could be the reason. Additionally, it has been discovered that, in comparison to businesses run by less educated entrepreneurs, those owned by professionally and technically trained entrepreneurs are better managed and have lower rates of illness. According to this study, there is a positive correlation between an entrepreneur's age and industrial sickness. As one gets older, the likelihood of getting sick increases. Seasonal units have a higher prevalence of illness than perennial units. Because of their idle capacity during the off-season, seasonal units are more likely to become ill. Compared to units financed through banks and other financial institutions, those financed through friends, family, or moneylenders are more likely to become ill.

According to the entrepreneur's assessment of their significance, the primary internal causes of illness are inadequate working capital management, outdated equipment, inefficient asset use, and



an unsuitable financial structure. The entrepreneurs listed the following external factors in order of significance: market recession, stringent credit policies, excessive taxation, restrictions on purchases, and raw material shortages. They listed the following symptoms of illness in order of significance: fluctuating profits, stagnant and declining sales, nonpayment of statutory obligations, and a weak equity base. They propose a number of metrics to assess the performance of revived sick units, ranking them according to significance: increased profitability, efficient use of financial resources, servicing of previous obligations, and on-time payment of current obligations.

Findings on the basis of T-Test

The financial ratios of the sick and healthy units differed significantly, according to the results of the student t-test. The averages of the ratios of healthy to sick units. It has been discovered that the units differ statistically significantly.

The mean values of the profitability ratios, liquidity ratios, and solvency ratios of the sick and healthy units differed statistically significantly. It has also been discovered that there are statistically significant differences between sick and healthy units in the mean ratios of debt to equity, debt to value, and fixed assets to shareholders' funds. Nevertheless, there hasn't been any discernible change in the activity ratios of sick and healthy units.

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

Conclusion

Hence, it can be concluded that the glory of industry is loosening from the state of Punjab. There is a dire need of strict policy formulation and implementation on the side of all the stakeholders to save the state from the continuity of industrial sickness.
