UPSC Civil Services Examination

UPSC Notes [GS-III]

Topic: Industrial Sickness - UPSC Economy Notes

What is Industrial Sickness?

Industrial sickness can be defined as a steady imbalance in the debt-equity ratio and distortion in the financial position of the unit. A sick unit is one which is unable to support itself through the operation of internal resources.

Once the sick units continue to operate below the break-even point (at which total revenue = total cost), industries are forced to depend on the external sources for funds of their long-term survival.

This is an important topic for IAS Exam and this article will provide relevant details about the Industrial Sickness and measures taken by the government at different levels.

Industrial Sickness – Special Provisions Act, 1985

The government defined the industrial sickness for the first time in the Sick Industrial Companies (Special Provisions) Act, 1985.

According to this Act, a medium or large (i.e. non-SSI) company was defined as sick if:

(1) It was registered for at least 7 years (later reduced to 5 years)

(2) It incurred cash losses in the current year and the preceding year.

(3) Its entire net worth (i.e. paid-up capital and reserves) was eroded.

A company is regarded, as weak or incipiently sick on the erosion of 50% of its peak net worth during any of the preceding five financial years.

The industrial sickness has been redefined in the Companies (Second Amendment) Act, 2002.

Revival and rehabilitation measures

The government undertake the following measures to revive and rehabilitate the sick industrial units.

Financial Assistance

As per the directions of the RBI, the commercial banks granted the following concessions to sick industrial units:

(a) Rescheduling of loans and interest:

(b) Grant of additional working capital:

(c) Waiving off interest on loans:

(d) Moratorium on payment of interest, etc.

Organisational measures

The different organizational measures are given below:

- State-level inter-institutional committees: These are set up by the RBI to ensure better coordination between the banks, state governments and other concerned financial institutions.
- Special Cell: It was set up by the Rehabilitation Finance Division of the IDBI to provide assistance to the banks for the revival of sick units.

Fiscal Concessions

- The government amended the Income Tax Act in 1977 to provide a tax benefit to those units which take over the sick units for reviving them.
- The government announced a scheme for grant of excise loans to sick/weak units.
- Under this scheme, selected sick units are eligible for excise loans not exceeding 50% of the excise duty actually paid over the preceding 5 years.