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FINANCIAL MANAGEMENT IN SICK UNITS

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ABSTRACT : In India, the term “sick units” refers to economically unviable firms which are kept alive “in the public interest” by means of subsidies of various kinds. Since this practice is common, and large parts of the industrial sector are affected, this phenomenon is referred to as industrial sickness. As of March 2001, the Reserve Bank of India counted over a quarter of a million of sick units with outstanding credit worth more than a quarter of a trillion of Indian Rupees, i.e. about 1.2 percent of Indian GDP. Recognizing that scarce resources are wasted on a great scale, the Government of India enacted special legislation to tackle the problem, namely, the Sick Industrial Companies Act. The efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. The significance of this function is not seen in the 'Line' but also in the capacity of 'Staff' in overall of a company. It has been defined differently by different experts in the field. The present policy does not favour management take over.

KEYWORDS- Finance, sickness, management.

MEANING OF FINANCIAL MANAGEMENT-

Financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. It is the specialized function directly associated with the top management. The significance of this function is not seen in the 'Line' but also in the capacity of 'Staff' in overall of a company. It has been defined differently by different experts in the field.

The term typically applies to an organization or company's financial strategy, while personal finance or financial life management refers to an individual's management strategy. It includes how to raise the capital and how to allocate capital, i.e. capital budgeting. Not only for long term budgeting, but also how to allocate the short term resources like current liabilities. It also deals with the dividend policies of the share holders.

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Functions of Financial Management

Financial manager are guided by the ultimate aim of any business i.e. profit and wealth.If we broadly classify the functions of a finance head of the business, it can be the procurement of funds and utilization of funds. The objective underlying the function of procurement of funds is to minimize the cost of funds whereas the objective behind the utilization of funds is to maximize the returns.

ASSESSING THE REQUIREMENT OF FUNDS

The function of procurement of funds starts from estimating the requirement of funds. It involves a lot of forecasting exercises to identify each and every future requirement of the project and find out the sum required for investment in fixed assets and working capital. Not only the quantum of a requirement is enough, the finance manager has also to decide the timing of that requirement. The timing of funds is very important in financial management because it carries time value of money and we know 'a dollar today is the same as a dollar 1 year later'.

FINANCING DECISIONS/CAPITAL STRUCTURE DECISIONS

Once a reasonable estimate of funds is charted out, the capital structure decisions would finalize two things viz. a) the mix of long-term finance and short term finance 2) the mix of own funds and debt funds. Longs term funds are normally used to finance long-term requirements such as fixed assets, other long-term investments and a part of working capital that remains permanently invested at any point of time.

DIVIDEND DECISIONS:

Dividend decisions mainly involve taking decisions in relation to the payment of dividend to the shareholders The main concerns to handle is to decide the dividend payout ratio which is dependent on a lot of things like requirement of funds to the company in their projects, the comparison of returns expected in company's projects and the return available to the shareholder in the normal market, stability of the dividend payment, market expectations, trend of earnings, tax considerations to the shareholders etc.

FINANCIAL ANALYSIS/PERFORMANCE APPRAISAL

The financial analysis is neither included in the functions of the finance but it is necessary to evaluate all the functions of finance which are performed. This evaluation results in the findings for improvements etc. Performance appraisal assesses the effectiveness of procurement of funds and their respective utilization. There are other functions like dealing with day to day transactions and negotiating with the creditors, debtors, bankers etc.

WAYS OF HELPING SICK INDUSTORIES

1. Banks Initiatives:

In order to rehabilitate sick industrial units the commercial banks have granted various concessions, such as, (i) grant of additional working capital facilities to overcome the shortage of working capital faced by such units, (ii) recovery of interest at reduced rates, (iii) Suitable moratorium on payment of interest; and (iv) Freezing a portion of the out-standings in the accounts, etc. Besides these concessions, commercial banks have also initiated a number of steps on the organisational front to understand the problem of sick industrial units and their rehabilitation.

2. Government Policy:

A policy framework regarding measures to deal with the problem of industrial sickness was laid down in the guidelines announced in October 1981 (modified in February 1982) for guidance of administrative ministries of Central Government, State Government and financial institutions. Government taking over the management of a number of industrial units under the provisions of the industries (Development and Regulation) Act, 1951, with the aim of reviving them by providing management of support and financial support through banks and financial institutions has not so far proved an effective measure for revival of sick units. The present policy does not favour management take over, except as a stop-gap arrangement for units to be nationalised. Government has announced the following concessions: (i) amended the Income-Tax Act in 1977 by addition of section 72A by which tax benefit can be given to healthy units when they take over sick units by amalgamation with a view to reviving them, and (ii) introduced a scheme on

January 1, 1982 for provision of margin money to sick units in the small scale sector a soft terms to enable them to obtain necessary fund from banks and financial institutions to implement their revival scheme. For reducing sickness in small scale sector a liberalized margin money schemes (LMMS) was introduced in June 1987. Under the scheme the State Governments are to make a matching contribution on a 50-50 basis in providing assistance to sick small scale units in their rehabilitation. The maximum amount to be sanctioned has been enhanced from Rs. 20,000 to Rs. 50,000 per sick unit. The Industrial Reconstruction Corporation of India (IRCI), established by the Government to revive and rehabilitate sick units, was in 1985 converted into a statutory corporation now known as the Industrial Reconstruction Bank of India (IRBI) with the aim of overcoming the inherent difficulties which had been faced by the (IRCI) In 1983 the RBI advised financing banks to evolve methods to diagnose sickness in industrial units at the incipient stage itself.

3. Board for Industrial and Financial Reconstruction (BIFR):

Industrial companies whose net worth has been eroded completely and those which have net worth eroded by 50 percent or more are required to make a reference to the BIFR under section 15 and 23 of the Act respectively. Public sector undertakings were also brought under the purview of BIFR through an amendment of the SICA, 1985 in December 1991. If sickness of a company is confirmed the BIFR will determine the course of action to be followed with regard to the company in the following ways: (a) allowing the company on its own time, to make its net worth positive within a reasonable period; (b) having a scheme prepared such as for reconstruction, revival or rehabilitation of the sick company for changing or takeover of management of sick unit for amalgamation with other unit for sale of lease of the company etc. through the operating agency in respect of the company, and (c) deciding on the winding up to the company.

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