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Sickness in Micro, Small and Medium Enterprises (MSMES) in India

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Abstract

This paper attempts to examine the growth of number of sick units and to highlight the reasons for sickness in MSME sector in India. For this purpose the necessary data required for the study have been collected from Fourth All India Census of MSME, Ministry of Micro, Small and Medium Enterprises, Government of India. The results of the study show that the number of sick units in MSME sector has declined from 1.77 lakh in 2001-02 to 0.90 lakh in 2010-11. The percentage of sick units in total MSMEs has also declined to 0.29% in 2010-11 from 1.68% in 2001-02. Lack of demand for the product and shortage of working capital are the main reasons for the sickness in MSMEs.

Keywords: MSMEs, Sickness, Reasons for sickness

Introduction

Micro, Small and Medium Enterprises have been playing a very important role in the social and economic development of the country. They are considered as the main indicator for the economic development of developing countries like India. It has significantly contributed to the overall growth in terms of Gross Domestic Product (GDP), employment generation, income distribution, rural development, poverty eradication, exports and regional balance. It is one of the most vital sectors of the Indian economy in terms of employment generation and providing strong entrepreneurial base. It has estimated that in terms of value, the MSME sector accounts for about 45% of manufacturing outputs and 40% of the total exports and 7% of the GDP in India. There are over 6000 products ranging from tradition to high-tech items, which are being manufactured by MSMEs in India. It is well known that the MSME sector provides good opportunities for both self employment and wage employment. Further, this has consistently registered a higher growth rate than the rest of the industrial sector.

In spite of its importance, the MSMEs are beset with the problem of sickness. An industrial unit may face a number of odds during its implementation and operation stage because of a number of factors in the environment. The sick industries are unable to utilize the production capacity or produced goods and services. The sickness has been acute and adversely affecting production and employment in the country besides other socio-economic repercussions, So there is need to identify sickness in the initial stages and to initiate the process of corrective measure and revive rehabilitation before the sickness assumes a serious proportion. **Ishu Garg and Suraj Walia** in their work on ‘Micro, Small and Medium Enterprises in post reform India: status and performance’ have examined that more than 1.04 lakhs units are with the problem of industrial sickness during 2008-09 accounting 0.36% in the total working enterprises of MSME sector. They have concluded that the MSMEs are suffered with many severe problems, which are mainly depending on the level of economic and social development of the country. Another study carried out by **Goyal, Nitin Gupta and Neeta Gupta** on “An overview of sickness in Micro, Small and Medium Enterprises in India” shows that the number of sick units in MSME sector has declined from 2.21 lakh in 1997-98 to 0.90 lakh in 2010-11. The percentage of sick units among the MSMEs has declined from 2.46% to 0.29% during this period.

Methodology

In this study an attempt has been made to examine the number of sick units and to highlight the reasons for sickness in MSME sector in India For this purpose the necessary data required for the study have been collected from Fourth All India Census of

MSME sector, Ministry of Micro, Small and Medium Enterprises, Government of India for the period between 2001-02 to 2010-11. Simple percentage analysis has been used to analyze the data.

Micro, Small and Medium Enterprises in India

The MSME sector consists of any enterprise, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership or undertaking or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of industry development and regulation act, 1951 and other enterprises engaged in production and rendering service, subject to limiting factor of investment in plant and machinery and equipments respectively as noted below.

(A) For manufacturing sector, an enterprise is classified as follows

- (i) **Micro Enterprise** : Investment in plant and machinery does not exceed twenty five lakh rupees
- (ii) **Small Enterprise** : Investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees
- (iii) **Medium Enterprise** : Investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees

(B) In case, enterprise is engaged in providing or rendering of services, it is classified as follows

- (i) **Micro Enterprise** : Investment in equipment does not exceed ten lakh rupees
- (ii) **Small Enterprise** : Investment in equipment is more than ten lakh rupees but does not exceed two crore rupees
- (iii) **Medium Enterprise** : Investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Table -1: Classification of MSME
(As per Micro, Small and Medium Enterprises Development Act, 2006)

Sector	Enterprises	
	Manufacturing (Ceiling on investment in plant and machinery)	Service (Ceiling on investment in equipment)
Micro	Up to Rs.25 lakhs	Up to Rs.10 lakhs
Small	More than Rs.25 lakhs and up to Rs.5 crores	More than Rs.10 lakhs and up to Rs.2 crores
Medium	More than Rs.5 crores and up to Rs.10 crores	More than Rs.2 crores and up to Rs.5 crores.

Source : Ministry of Micro, Small and Medium Enterprises, Government of India.

Sickness/incipient sickness in MSMEs

Sickness in MSME sector is a cause of concern. The definition of sickness in MSME sector has been undergoing changes over time. The Reserve Bank of India (RBI) has appointed committees from time to time to look into this issue. The working group on rehabilitation of sick units set by the RBI (**Kohli Committee**) has defined sickness as "a small scale industrial unit is considered as sick when if any of the borrowable accounts of the unit remains substandard for more than six months, i.e., principal or interest, in respect of any of its borrowable accounts has remained overdue for a period exceeding one year will remain unchanged even if the present period for classification of an account as substandard is reduced in due course; or there is erosion in the net worth due to accumulated losses to the extent of 50% of its net worth during the previous accounting year, and the unit has been in commercial production for at least two years".

Criteria to identify sickness/incipient sickness

Information on sickness and incipient sickness has been collected during Fourth All India Census. In order to measure incipient sickness, continuous decline in gross output for three consecutive years has been identified as a suitable indicator, whereas for measuring sickness latest definition given by **Kohli Committee** has been used. The following criteria have been adopted to identify sick/incipient units in the Fourth All India Census of MSME sector.

- (i) Continuous decline in gross output compared to the previous two financial years. (Say A)
- (ii) Delay in repayment of loan, taken from institutional sources, for more than 12 months. (Say B) and
- (iii) Erosion in net worth to the extent of 50% of the net worth during the previous accounting year. (Say C)

Sickness/incipient sickness in MSME sector being a leading question, the enumerators have been asked to elicit reasons from the entrepreneurs of units satisfying at least one of the above criteria, as to why their unit has not been running satisfactorily. Thus, (AUBUC) is a set of sick units which is derived algebraically as $(AUBUC) = (A+B+C) (AB + BC+ AC) + (ABC)$; where AB, BC and AC are the intersections of sets A & B, B& C and C& A and ABC is the interaction sets A,B and C.

Number of sick units in MSME sector

Despite the appreciable performance of MSME sector and its significant contribution to the Indian economy, the problem of industrial sickness is persisting in this sector. The MSME sector in India is the worst hit. A number of MSMEs are either born in sick or stay in sick. Industrial sickness is a continuing process with distinct stages taking some years to corrode the health of a unit beyond cure. The earlier the detection of sickness, the earlier will be the remedy for sickness. The number of sick units in MSME sector is presented in the table No.2. It is clear from the table that the number of sick units among MSMEs has declined to 0.90 lakh in 2010-11 from 1.77 lakh in 2001-02. The percentage of sick units in total MSMEs has also declined from 1.68% in 2001-02 to 0.29% in 2010-11.

Table- 2: Sickness in MSME sector

Year	Total MSMEs (in lakh)	Sick units (in lakh)	% to total
2001-02	105.21	1.77	1.68
2002-03	109.49	1.67	1.53
2003-04	113.95	1.43	1.25
2004-05	118.59	1.38	1.61
2005-06	123.42	1.26	1.02
2006-07	261.01	1.14	0.43
2007-08	272.79	0.85	0.31
2008-09	285.16	1.04	0.36
2009-10	298.08	0.78	0.26
2010-11	311.52	0.90	0.29

Source: Annual Report 2011-12, Ministry of Micro, Small and Medium Enterprises,
Government of India

Reasons for sickness/incipient sickness

The MSMEs have been suffering with many severe problems, which are mainly depending on the level of economic and social development of the country. India as a developing country is not an exceptional one to the above condition. There are unlimited problems connected with MSMEs. The fourth All India Census of MSME sector has identified major reasons for sickness/incipient sickness in MSME sector. The table No.3 shows the various reasons identified by Fourth All India Census of MSME sector for sickness in MSMEs. It is clear from the table that lack of demand for product and shortage of working capital are the main reasons for the sickness in MSMEs. Nearly 42% of the total sick units have been suffering due to lack of demand for their product and more than 20% of the total sick units have the problem of shortage of working capital.

Table.3: Major reasons for sickness/incipient sickness

S.No.	Reasons	Proportion of sick units
1.	Lack of demand	41.94%
2.	Shortage of working capital	20.49%
3.	Non – availability of raw material	5.11%
4.	Power shortage	5.71%
5.	labour problems	5.64%
6.	Marketing problems	11.48%
7.	Equipment Problems	3.17%
8.	Management problems	6.46%
	Total	100.00%

Source: Fourth All India Census of MSME, Ministry of Micro, Small and Medium Enterprises, Government of India

Conclusion

Micro, Small and Medium Enterprises have emerged as a vibrant and dynamic component of Indian Economy by virtue of their significant contribution to gross domestic product, industrial production and exports. However, the most important contribution of this sector is towards employment generation which is second only to agriculture in India. In spite of its importance, this sector is beset with the problem of sickness. In order to prevent the major sickness in MSME sector, new approaches like the cluster approach or harnessing the power of industry associations should be encouraged. Undoubtedly the MSME sector has enormous potential, and is a crucial aspect of the Indian economy. However, it is essential on the part of the government to take careful decisions and honest policy implementation to overcome the *problems of the MSME sector*.

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