

The Analysis of Industrial Sickness with Reference to the FCIL

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ABSTRACT

Objective – The growth and magnitude of industrial sickness is a dangerous issue, not only for the present situation but also for the near future. There are many reasons that could have caused a company to become sick and the reasons could be internal or external or a combination of both. In that regard, this paper aims to analyse the presence of industrial sickness by reviewing the revival policy measures of the Fertilizer Corporation of India Limited (FCIL), particularly the Ramagundam unit.

Methodology/Technique – Data for this paper are extracted from sources such as the Indian Economy reports, the Department of Fertilizers Government of India reports and personal interviews with the employees of the Fertilizers Corporation of India Limited, Ramagundam unit.

Findings – The results showed that the FCIL unit became sick mainly because of poor management decisions, feeble human resource management, use of outdated technology, power-cut problems, non-availability of raw materials and wrong government policies.

Novelty – This paper highlights why the FCIL has been declared as a sick company and what sort of government policies and preventive actions should be taken for revival or to rehabilitate the company.

Type of Paper: Empirical

Keywords: Sickness; Revival Measures; Industrial Development; Fertilizers.

JEL Classification: L65, Q53.

1. Introduction

Industrial sickness has affected all kinds of large, medium and small scale companies in India. In 2011, 90141 small companies became sick, with 52.11 billion rupees being outstanding at various banks. In 2012, a total of 85,591 small companies became sick with 67.90 billion rupees being outstanding at commercial banks. In 2011, the total medium of sick companies were 2117 with an outstanding of 3723.63 crores at various commercial banks. In 2012, the total medium of sick companies were 3044 with an outstanding of 8704.39 crores at various banks. In 2013, 2014 and 2015, about 2,20,492, 4,65,492 and 5,28,300 small scale companies,

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respectively, became sick and the outstanding at banks were 124.42, 263.31 and 253.88 billion rupees respectively.

In looking at large scale sectors, it appears that sick companies are also increasing on a daily basis. From 2011 to 2015, the total number of large scale sick companies registered at the Board for Industrial and Financial Reconstruction (BIFR) were 511. By the term sick, this paper is referring to industrial sickness, which is the un-economic functioning of industrial units. Industrial sickness is detrimental to a country because it shows a negative impact on the industrial growth of the country. If a company within a country is not working to its full capacity, it may not be able to earn reasonable profits as a means to pay fair wages and dividends to its employees and shareholders alike. A sick unit is thus a unit that is not healthy in the general sense. From an investor's point of view, such units are unable to return dividends. However, from a banker's point of view, such units are damaging because they incur cash losses from previous year and are likely to repeat the same preference in the current and following years.

Industrial sickness can be identified through different signs. These include their operating losses, revenue losses, and short term liquidity problems and the over use of external credits. According to the lending institutions, a unit can be classified as sick if it shows the following symptoms:

- i. Continuous default in meeting four consecutive half yearly installments of interest or principals, in respect of institutional loans,
- ii. Continuous cash losses for a period of two years or continued erosion on the net worth of 50 percent,
- iii. Mounting arrears on the account of statutory and other liabilities for say a period of 1 or 2 years.

According to the Companies (Second Amendment) Act, 2002, a Sick Industrial Company is taken to mean an industrial company which has:

- i. The Accumulated losses in any financial year of equal to 50 per cent or more of its average net worth during four years immediately preceding such a financial year or
- ii. Failed to repay its debts on demand or made in writing, within any three consecutive quarters, for its repayment by a creditor or creditors of such company.

1.1. Fertilizer Industry in India

India is known as an agricultural country and the agriculture sector plays a key role in its economic growth because agriculture provides one seventh of the GDP and sustenance to nearly two thirds of the country's population. In India, the agriculture sector had emerged from a very modest level of 52 million MT in 1951-52. However, food grain production increased to 264.7 million MT in 2013-14. This improvement is a very good sign for the Indian economy because it is meeting the domestic requirement of food grains, moving from a deficit production to exportable levels. Here, the performance level of the fertilizers industry is recognized as a complement to the agriculture sector. This is because besides being an agricultural country, India is also the world's third largest producer of fertilizers, with an installed capacity of 132.58 LMT of Nitrogen and 70.60 LMT of Phosphatic Nutrient in the 2014-15 period. India has 30 large size urea manufacturing plants with 21 units manufacturing DAP and complex fertilizers and two Ammonium Sulphate units as a by-products. Along with these units, there are 97 medium and small scale units producing single super phosphate.

Table 1. Sector Wise Installed Capacity

No	Sector	Capacity (LMT)		% Share	
		N	P	N	P
1	Public Sector	37.64	3.87	28.39	5.48
2	Cooperative Sector	36.38	17.13	27.44	24.26
3	Private Sector	58.56	49.60	44.17	70.26

Total		132.58	70.60	100.00	100.00
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Source: Department of Fertilizers, GOI Report 2014-15.

1.2 Fertilizers Corporation of India Limited (FCIL)

The Fertilizers Corporation of India Limited (FCIL) was established in the year of 1961 and it comes under the control of the Department of Fertilizers, Ministry of Chemicals and Fertilizers, the Indian Government which had consolidated several fertilizer manufacturing companies into one single Strategic Business Unit. Under the reorganization plan, the operating fertilizer plants located at Ramagundam (Telangana), Sindri (Jharkhand), Jodhpur (Rajasthan), Talcher (Odisha), Gorakhpur (Uttar Pradesh), and Kobra (Chhattisgarh) were merged to become the Fertilizers Corporation of India Limited. In this context, the Ramagundam unit is unique, in terms of its products like Urea and Ammonia wherein coal gasification methodology is used. This makes the Ramagundam unit the first fertilizer plant in India to use coal based technology. The Ramagundam unit is also the world's biggest coal gasification based fertilizer unit with an annual producing capacity of 808.65 thousand MT of Nitrogen per annum. The Authorized Capital of the FCIL is 800 Crores and the Paid up Capital, as of March 31 2008, is Rs. 758.24 Crores.

The major products of the FCIL are Urea, Ammonia, Ammonium Bicarbonate, Nitric Acid, Ammonium Bicarbonate, Gypsum and Ammonium Nitrate in various forms like Prill, Flake and Melt. Table 2 illustrates the region in detail.

Table 2. The unit wise major details of Fertilizers Corporation of India Ltd.

Name of Unit	Location		Date of Commissioning	Date of Shutdown	Land (Acres)	No. Of quarters
	District	State				
Sindri	Dhanbad	Jharkhand	1979	2002	6652	6542
Gorakhpur	Gorakhpur	UP	1969	1990	993	1301
Talcher	Angul	Odisha	1980	1999	890	1036
Ramagundam	Karimnagar	A.P	1980	1999	1284	1310
Korba	Korba	Chhattisgarh	Never	N/A	664	73
Total					10483	10262

Sources: Report of the Working group on Fertilizer Industry for the Twelfth Plan, Ministry of Chemical and Fertilizers, GOI

2. Review of Literature

In looking at industrial sickness, Pursell (1990) explained that the issue could be seen from two perspectives: primary sickness or secondary sickness. Secondary sickness refers to the non-functioning of the unit which is caused by poor government policies and poor demand and supply due to price levels. In this regard, Narayana (1994) offered four major elements that could be the reasons causing the sickness in the respective companies and this includes: mismanagement, poor government policies, labour problems, as well as time and cost overruns.

In another study, Kachhwah (2014) noted the causes as well as remedies of industrial sickness suffered by small scale companies. He cited that these reasons could be internal and external. He further explained that if industrial sickness is identified earlier, it will make it easier to treat the sickness. However, when the sickness has reached an advanced stage, it becomes more difficult to diagnose and even more difficult to make the situation normal again.

Likewise, Chowdhary (2012) found that finance was the most important reason cited by the employees of the Jammu and Kashmir Industries Ltd. This was rebutted by Hoque and Biswas (2013), who mentioned that the major element causing industrial sickness is the poor management decision and the improper application of operation funds. Nonetheless, Junejo, et al., (2007) were of the opinion that various problems like shortage

of suitable raw materials, the selection of old technology for use, heavy competition, lack of financial facilities, inadequate organized producers and poor marketing strategies could also be contributory to industrial sickness. In his study, Singh (2011) mentioned that sickness in companies is an organic process which takes time for it to simmer before it erupts to the surface. This is affirmed by Goyal (2010) who noted that industrial sickness seen at the early stage is very important for the information could be used to predict how companies could use different tools to deal with the situation.

In their study, Mondal and Roy quoted ratios and statistics as important predictors for identifying industrial sickness. They also suggested that earning power and capital structure are equally good and important predictors to consider for corporate distress.

Jones (1976) noted that merging seems to be the solution to industrial sickness usually by merging sick units with healthy units as it was expected to lead to professional management. However, the implication of the merger scheme may turn out to be important only in the sense that it helps in structural changes of the industrial scenario and nothing else.

As a way of solving this issue, Ramachandra (2001) explained about revival and how reviving the respective enterprises can be done through various strategies such as by providing management training to staff, updating the current technology, ensuring skilled labour, promoting export and giving financial aids. Without doubt, these are important measures for the nation's economic growth.

The objective of this study is to learn about the possible reasons causing the FCIL to become sick.

3. Methodology of Study

Data for this study were drawn from sources like the Indian Economy reports, the Department of Fertilizers Government of India reports, various text books, newspapers and journals. Various websites were also taken as the reference for this paper. The employees working in the Fertilizers Corporation of India Limited, Ramagundam unit were approached for personal interviews. The financial and profitability position data collected from the Ramagundam unit are presented in Table 3.

Table 3. the fertilizer corporation of India limited; Ramagundam unit details of year wise production and cost analysis (rs. Lakhs)

Year	Production (Mt)	Sales	Variable Cost	Contribution	Fixed Cost	Operating Profit	Depreciation	Cash Loss	Interest	Net Profit	Prior Period Adjustment	Net Profit	Cum. Loss	Retention Price
1980-81	57661	905.49	867.28	38.21	307.66	-269.45	777.35	-1046.80	445.14	-1491.94	--	-1491.94	--	--
1981-82	128006	3803.79	2188.61	1615.18	1120.54	494.64	1856.65	-1362.01	1237.09	-2599.10	81.21	-2517.89	-4009.83	--
1982-83	162664	7077.69	4041.35	3036.34	1096.73	1939.55	1862.46	77.09	1013.14	-936.32	33.24	-903.08	-4912.91	--
1983-84	175068	8884.02	5576.36	3307.66	1265.97	2041.69	1878.92	162.77	902.89	-740.12	-28.02	-768.14	-5681.05	--
1984-85	203090	10109.35	5943.44	4165.91	1520.60	2645.31	1880.93	764.38	792.78	-28.40	-120.64	-149.04	-5830.09	--
1985-86	120140	5623.85	3628.17	1995.68	1508.50	487.18	1898.61	-1411.43	977.37	-2388.80	-37.14	-2425.94	-8256.03	4568
1986-87	246015	11553.47	6194.70	5358.77	1425.93	3932.84	1929.72	2003.12	1770.65	232.47	27.12	259.59	-7996.44	4724
1987-88	117255	7328.65	5431.83	1896.82	1930.90	-34.08	1936.78	-1970.86	1678.64	-3649.50	256.11	-3393.39	-11389.83	4836
1988-89	154160	9386.44	6536.02	2850.42	1749.76	1100.66	1941.94	-841.28	1839.06	-2680.34	-289.94	-2970.28	-14360.11	5034
1989-90	113875	6687.64	4997.84	1689.80	1797.09	-107.29	1951.20	-2058.49	1936.00	-3994.49	334.48	-3660.01	-18020.12	5376
1990-91	78280	4537.30	4561.64	-24.34	1866.62	-1890.96	421.15	-2312.11	2306.60	-4618.71	-62.56	-4681.27	-22701.39	5744
1991-92	193860	11670.42	8221.61	3448.81	2067.40	1381.41	404.16	977.25	4687.82	-3710.57	29.75	-3680.82	-26382.21	6266
1992-93	126025	9597.00	8772.87	824.13	1818.59	-994.46	437.12	-1431.58	4585.01	-6016.59	139.68	-5876.91	-32259.12	7504
1993-94	193015	15687.00	12172.00	3515.00	2985.00	530.00	228.00	302.00	6013.00	-5711.00	354.97	-5356.03	-37615.15	8030
1994-95	76495	6346.14	6612.43	-266.29	2698.26	-2964.55	270.14	-3234.96	6188.98	-9423.94	-2092.15	-11516.09	-49131.24	7882
1995-96	107385	9081.71	8996.76	84.95	3064.05	-2979.10	283.44	-3262.54	8261.04	-11523.58	-97.01	-11620.59	-60751.83	8036
1996-97	69290	7428.09	9671.48	-2243.39	3459.47	-5702.86	293.72	-5996.58	9608.75	-15605.33	-23.90	-15629.23	-76381.06	10713
1997-98	101400	10316.64	14463.73	-4147.09	3748.24	-7895.33	334.73	-8230.06	12311.67	-20541.73	140.09	-20401.64	-96782.70	10610
1998-99	91910	9784.88	13358.48	-3573.60	4136.65	-7710.25	344.11	-8054.36	13226.30	-21280.66	27.46	-21253.20	-118035.90	10874
1999-00	0	253.55	140.01	113.54	3231.19	-3117.65	344.52	-3462.17	14442.21	-17904.38	-24.23	-17880.15	-135916.04	--
2000-01	0	504.92	44.04	460.88	2870.18	-2409.30	402.97	-2812.27	16545.09	-19357.36	63.05	-19420.41	-155336.45	--
2001-02	0	182.04	43.17	138.87	2741.87	-2603.00	400.66	-3003.66	18768.99	-21772.65	959.54	-22732.19	-178068.65	--
2002-03	0	1975.41	9.16	1966.25	5687.99	-3721.74	110.57	-3832.31	21318.96	-25151.27	1860.28	-27011.55	-205080.19	--
2003-04	0	282.54	223.93	58.61	282.01	-223.40	11.27	-234.67	613.60	-848.27	1.57	-849.84	-205659.06	--
2004-05	0	28.15	1.48	26.67	117.72	-91.05	11.18	-102.23	684.67	-786.90	-2.22	-784.68	-206443.70	--
2005-06	0	28.14	0.00	28.14	119.21	-91.07	11.18	102.25	684.67	-786.92	-2.22	-784.70	-206443.75	--
2006-07	0	113.38	0.00	113.38	676.48	-563.10	10.89	-573.99	32475.57	-33049.56	184.46	-32865.10	-321406.50	--
2007-08	0	29.86	0.00	29.86	52.61	-22.75	10.50	-33.25	34998.30	-35031.56	-0.99	-35030.57	-356437.05	--
2008-09	0	18.33	0.00	18.33	48.15	-29.82	2419.22	-2449.04	12438.71	-35031.56	-147832.11	112800.55	-223492.69	--
2009-10	0	40.06	0.00	40.06	511.93	-471.87	46.30	-518.17	12722.40	-13240.56	-8.40	-13232.16	-236724.85	--
2010-11	0	28.62	0.00	28.62	67.69	-39.07	10.13	-49.20	12504.79	-12553.96	-31.97	-12521.99	-249246.84	--
2011-12	0	34.81	0.00	34.81	151.92	-117.11	9.89	-127.00	12485.95	-12133.24	-7.56	-12125.68	-261380.09	--

4. Findings

Based on the data analysed, it was found that there were several caused for the sickness. The main causes as identified by this study are summarized in Table 4.

Table 4. Causes of Industrial Sickness of FCIL

Internal causes	External causes
*Wrong Project Selection	*Under/ Over financing by banks
*Lack of Finance	*Delay in disbursement of loans
*Marketing Problems	*Delay in detection of early symptoms of sickness
*Inappropriate Personnel Management	*Change in government policies
*Ineffective Corporate Management	*Delayed in payment of bills by the government department
*Bad Production policies	*Power cuts
*Wrong demand forecasting	*Erratic supply of raw materials
*Defective plant and Machinery	*Credit constraints
*Old and outdated machinery	

Due to the above reasons FCIL unit turned into sick. Under the Sick Industrial Companies Act 1985, BIFR declared FCIL as a sick company in 1992.

It is noted that the data explaining the causes of the sickness could be categorized into Internal and External causes.

4.1. Consequences

As a result of the data noted above and from the interviews conducted, the industrial sickness suffered by the Ramagundam unit had led to the following consequences.

- 900 employees were forced to take Voluntary Separate Schemes(VSS).
- 200 employees had taken Voluntary Retirement Scheme.
- 1000 contract workers lost their employment.
- The township of 2,600 acres had turned into a ghost town.
- Loss of machinery and equipment due to theft incidents.
- Many resources were kept idle and some resources were wasted.
- It had created unrest in labor.
- It had created adverse effect on related sectors like transportation, real estate, fuel and oil industry and agriculture sector etc.
- It had created losses in the government revenue.
- It had created a gap between the domestic production and the demand of urea in India.

4.2. Revival Plan of FCIL

In the move to revive sick industrial companies, the Indian government has decided to award some units of the FCIL to the status of Public Sector Units but based on a nomination basis. In this regard, the government invited proposals from all the Public Sector Units to help with the plan for revival. In addition, the Ministry of Chemicals and Fertilizers also announced that the cabinet has decided to make the Engineers India Limited and National Fertilizers Limited as conglomerate partners as both are expected to undertake and revive the Ramagundam Unit. The estimated cost of this joint venture project is about rupees 4,500- 4,700 crores. This

implies that engineers from India Limited and National Fertilizers Limited would both be having the equal stake of 26% each for the Project. In addition, the FCIL will have only 11% of the stake while the remaining balance would be given to another sector, either a Private or Public Sector Unit Investor. It is expected that the production capacity of the plant, by then, would be 2200 million tons of ammonia per day and 3850 million tons of urea per day.

Advantages of the Revival Program as follows:

Based on the outcome drawn from this study, it can be noted that there are several advantages to the revival program:

- It may increase the economic boom of the Telangana state in India.
- Urea production will increase the agriculture productivity of the state.
- It can create direct and indirect employment opportunities during the constructive phases.
- Fertilizer demands may be met through the increased production.
- A decrease in urea import could lead to a better balance of payment figures.
- There will be proper utilization of resources.
- The value of the surrounding will be enhanced through development of infrastructure facilities.
- The social environment will be improved and enhanced.
- Capital expenditure will be minimized through the usage of the existing plants and machineries.
- There will be government support in-terms of supervision of new plans.

5. Conclusion

From the outcome that can be drawn from this study, it appears that successful business organizations is the key for the development of nations as they provide many opportunities to society. However, industrial sickness is like a hurdle; it may emerge because of internal and external reasons. In this study, it was found that the FCIL unit became sick mainly because of poor management decisions, feeble human resource management, usage of outdated technology, problem with power cuts, non-availability of raw materials and wrong government policies. All of these causes had led to a sick company which henceforth, raised many consequences which served as a serious problem for the country. If sick companies are not dealt with, prospective investors/entrepreneurs would be afraid of investing as it involves a loss of money, career and opportunity cost and other matters. In that regard, the Government of India had identified the importance of this company and it had also announced a revival plan for closing the FCIL unit as per the BRPE recommendation of 2007-08. This is a good sign for developing countries like India.

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