

CHAPTER IX**RECOVERY PERFORMANCE**

The recovery performance of the Corporation is not satisfactory. The rate of recovery has receded over the years. Feeble recovery is causing serious threat to the Corporation squeezing the repayment obligation.

In this chapter, discussion have been made on the recovery of Principal and interest. The reasons for poor recovery, and their remedies have also been evolved in the chapter.

It is transparent from Table IX.1, that the rate of recovery to demand diminishes continuously. During 1980 - 85, on an average the rate of recovery was more than 40.0 percent. In 1982, the recovery rate was as high as 72.0 percent. But since 1990 onwards the rate descended sharply and in 1995 the rate reduced to only 5.4 percent. The compound growth in demand stood at 73.7 percent while in recovery it is 55.1 percent. This exhibits the disparity in the growth of demand for recovery and actual recovery.

The analysis of 'Principal recovery', as per Table-IX.2, shows higher recovery rate as compared to the combined recovery rate of Principal and interest, Table-IX.1, op.cit. The annual recovery in earlier years was good. In later period, both annual and cumulative rate of Principal recovery is downturn.

In realisation of interest, the Corporation shows very slow progress. As per Table-IX.3, out of total demand of Rs.956.9 lakhs only a total of Rs.65.8 lakhs could be realised. This

sluggish recovery accumulated huge interest arrear causing inefficiency in resource administration.

Both in the recovery of Principal and interest, the Corporation failed to exert any improvement. Its recovery performance is so dismal that the Corporation is entering into a vicious cycle of credibility and inefficiency. This has affected the repayment of borrowings to the IDBI and SIDBI. These two all-India financial institutes always insist upon the Corporation to repay in time.

The repayment by the Corporation is much better than the repayment by assisted units, as evident in Table-IX.4. Despite less recovery from the units, the Corporation repaid at an increased rate till 1992. This was possible due to the increase in the capital, borrowings etc. in the fund of the Corporation, during that period.

The factors responsible for the repayment by the units and Corporation are different from each other. The Corporation's repaying capacity depend on its resource-generation capacity whereas assisted units repayment capacity hinges upon the profitability of the concern. The loan assisted units seldom provide return to the Corporation. Most of the units are sick and such widely dispersed that frequent inspection and persuasion is not possible by the Corporation. The Corporation expressed inability to provide profit and loss figure to the present researcher which prevented the scope of profit analysis of assisted units.

ARREAR OF LOAN

The loan portfolio of the Corporation consists of term loan, bridge and soft loan against subsidies. Term loan, thus, accumulates major arrears in principal and interest.

Till 31st March, 1995, total principal outstanding amounted to Rs.1,922.9 lakhs, as depicted in Table-IX.5. Till 31st March, 1994, secured loan from IDBI as refinance was Rs.271.3 lakhs and from SIDBI was Rs.745.6 lakhs. The interest on loans due to IDBI and SIDBI amounted to Rs.116.2 lakhs till March, 1994.¹

The arrear of loan in the Corporation was mounting because of poor recovery performance. In the total outstanding of Rs.1,874.4 lakhs for 1274 units, arrear affected principal outstanding was of Rs.1,635.5 lakhs for 710 units i.e. 87.2 percent to the total (Table-IX.6). The growth of principal outstanding from 1977 to 1994 was more than 2725 times.

The arrearwise analysis of total loan amount shows that, the east district is responsible for highest amount of arrear of loans. Among total principal outstanding of Rs.1,635.5 lakhs, east district occupy Rs.1,132.5 lakhs i.e. 69.2 percent. The south district had an outstanding of 21.3 percent of the total principal outstanding. In the arrear of principal and interest, the east district held 73.0 percent arrear in principal and 67.4 percent of the interest arrear of the corresponding total.

Table-IX.7 exhibited hotels with largest amount of principal outstanding followed by food and food product and metal and metal product industry. However, unitwise, textiles and

textile products industry counted highest followed by hotels and SVO.

Arrear in principal and interest made responsible the hotel industry with maximum arrear followed by metal industry and plastic industry.

Constitutionwise, private and public enterprises accounted 709 units and 1 unit respectively. The share in the outstanding principle of the former was Rs.1,541.7 lakhs and of the later was Rs.93.8 lakhs. In the arrear of principal and interest, almost same amount stood for private and public enterprises.²

Sectorwise, the Small Scale Units constitute total principal outstanding and arrears of principal and interest.

In terms of age, about 60.0 percent of the principal outstanding was due for more than 36 months. Same is the rate percent for arrear in principal and interest due for more than 36 months.³

Sizewise, out of total 695 units, 669 units i.e. 96.0 percent were upto the bracket of Rs.10.0 lakhs. Amountwise, principal and interest arrear of Rs.644.0 lakhs were in between Rs.50.0 lakhs and Rs.100.0 lakhs.⁴

As time elapsed, fresh default committed in each year raised the magnitude of arrear. Again, the amount of arrear loan recovered in one year has been annuled by the corresponding default committed afresh in that year. With a view to abate the incidence of default, the Corporation has been adopting a novel policy to help the assisted units which are in financial

difficulties, either by rescheduling repayment of instalments of loan or by granting them extended time or more gestation period in order to enable defaulters to recover or even by sanctioning additional loan when there is considerable overrun in the cost of projects.

The Corporation has rescheduled the loan and rate of interest for Scan Industries Private Limited, Labott Private Limited, Agarwal Wire (Private) Limited, Metalex Industries (Private) Limited etc. A total of Rs.121.2 lakhs—Rs.25.9 lakhs during 1989-90 and Rs.95.3 lakhs during 1992-93, was rescheduled to help respective loanees.⁵

CAPITALIZATION OF INTEREST

In a dismal condition with massive outstanding the Corporation is unable to restrict the Commitment of default. As a remedial measure, interest can eventually be capitalised in certain cases. Accrued interest on loan sanctioned may be capitalized and merged with principal loan amount, thereby principal loan amount will be enhanced to the extent of accrued interest and a new repayment schedule will be made on new principal amount. The process help reviving sick units clubbing their arrears of interest with principal. The financial and banking institutions cannot remain indifferent to the hardships of the small borrowers caused by the economic environment, and laxity in the recovery would be self defeating. It has been suggested that the state government should pass suitable legislation on the basis of the Talwar Committee recommendation to help the financial institutions in the matter of recovery.

CAUSAL EFFECT

The State envisaged a number of hurdles in the process of industrialization which in turn affected recovery position, too. Following are the obstacles in the process of industrialisation.

1. The risk factor for investment in industries is high, in view of competition, lower grade of expertise etc.
2. The investment is low and central investment subsidy is stopped.
3. Often assistance for industries are diverted to satisfy self-esteem need.
4. Lack of financial planning and control restrained many units to close-down in the mid-operation.
5. Marketing problem hindered the growth of industries. However, Price preference was given to Sikkim-made product. But still, local products were replaced by outside-products.
6. Shortage of Working Capital led to the closure of many units.
7. Escalating transportation cost caused hike in prices.

Besides the above distinct features which led to poor performance of industries resulting very low rate of recovery, other common factors are wilful default, scarcity of raw materials, working capital shortage etc.

It has been noticed that loan sanction based on project viability and feasibility concept has not been properly adhered to. The said missing link connected with sanction, can reduce the magnitude of arrear dues.

Generalising the reasons for huge chronic default in the corporation, following are the observations for feeble recovery.

1. Low standard of project feasibility study;
2. Over-enthusiasm by the Corporation to sanction and disbursement of the loan;
3. Liberal attitude for project evaluation;
4. Lesser insistence on clearance of arrear dues; and
5. Inability to reconcile quantitative and qualitative parameter of loan sanction.

The causal impact may be also due to external pressure to increase the quantity of assistance. The efficacy of assistance can be assumed to be the best where quantity and quality can be brought at an ideal level. The maintenance of such ideal relation is also connected with pace of industrialisation of the respective state concerned. It has been suggested that the relationship between SFCs and SIDCs and management of assisted units must be on a continuous basis, dependent on healthy principles. So far observation over SIDICO is concerned, it has been a practice with the corporation to contact the assisted units casually on certain specific occasion. The follow up was looked after by the Manager-II now been promoted to DGM-II. During 1992-93, 418 units were inspected and of them 13 progress reports were scrutinized.⁶

In account of total 1247 assisted units till 1992-93, inspection for 418 was not sufficient. A casual inspection cannot improve the functioning nor the causes of default and other difficulties experienced but can bring them into light. Very often, though the causes are pointed out in the inspection report

the remedial measures are beyond control of the Corporation and the assisted units. Such regular causes are related to scarcity of raw material, competitiveness, non-availability of subsidy, extension of moratorium period non-contiguity of market, heavy transportation cost and other terrain and infrastructural difficulties and so on.

A close liason need be set up with the assisted units and they may be advised from time to time as how to overcome the hurdles cropped up in the process of operation. In order to render expert service it may be suggested for setting up of a pool of experts in respective field like the IFCI. The services of experts of the pool may be availed of by other similar sister concerns operating in the same region.

As practiced in the IFCI, in case of inspection of assisted units by its officials, the incidental cost of inspection shall be borne by the assisted units concerned. This step keeps the assisted concerns cautious of incurring additional cost in the form of inspection fees in case of commitment of default. This type of psychological and financial pressure should be imposed by the Corporation upon the assisted units. If the recovery of such inspection expenses can be stipulated in the loan agreement and followed properly it will certainly be worthy to combat the tendency of default.

Under the constant pressure of arrear dues, the corporation had no other way but to file law suits for recovery. Till the end of March, 1995, the Corporation registered 121 cases involving an amount of Rs.7.2 crores.⁷ To expedite litigation process, a certificate officer under the Act was appointed. The

certificate officer with magisterial power expedite cases since mid 1993. The cases were also referred to the Court of District Judges.

Section 29 of the SFC act empowers the Corporation direct sale of mortgaged property. As the SIDICO is established under Sikkim Companies Act, 1961, there is a technical difficulty in adopting the said section.

In Sikkim even Court's verdict to attach property was not welcomed because of social, environmental and economic background and lack of co-operation of public as well as civil authorities in acquiring the possession of mortgaged property by the corporation. There is an example of such resistance in the Capital of Sikkim i.e. in Gangtok itself. The corporation in recourse of an auction of acquired building, could not sell the same due to non-availability of bidders.

In litigation process, defaulters plead through some of the King's law, still prevails in the State. For example, according to one Debt Law of Chogyal's time, total interest could never exceed the Principal.

In practice, non-payment of instalments made the interest much more than the principal amount. Due to the provision of such law, recovery-drive has been hampered for many units.

In the light of a judgement, the loanee had to bear the cost of case as ordered by the court.⁸ It is observed that the defaulter is willing to bear the litigation expenses, legal cost of the petition but reluctant to repay the instalment of Principal and interest of the Corporation. A person having the

ability to bear all such cost, time, patience for litigation has not the ability to repay the loan is unbelievable. This indicates the attitude of the loanee towards the Corporation's loan which is common to almost all the Corporation's especially government level agencies. This attitude creates blockage of public resources and hinders the cyclical flow of scarce funds.

The appointment of nominee director to the Board of assisted units is restricted only to limited companies. Such appointments could not help check the growth of default in respect of non-corporate sector which also constitutes substantial portion of default. Any type of nomination in the management or external surveillance for non-corporate sector should be stipulated for future guidance and effectiveness.

The inspection procedure should be made elaborative and informative. The response of the loanees for non-repayment of dues etc. should be recorded on spot, leaving little chance of framing biased opinion later on in the report. This will lead to improve the existing follow-up and recovery methods.

In evaluating different practices as resorted to by the Corporation from time to time is to be viewed from the angle of economic environment of the state. Default by some of the units are mainly attributed by two sets of factors : one relates to market constraints, higher cost of inputs, non-availability of raw materials, working capital shortage etc., the other relates to internal lapses and deficiencies like delay in implementation of projects causing overrun, weak and inadequate management, with deleterious effect on the performance of assisted concerns. These factors act either individually or in combination. The recovery

procedure has to be framed paying due regard to the rehabilitation of sick units having fair chance for revival. For maintaining congenial relationship, dues should be settled outside the Court. The corporation, to prevent recurrence of default incident, should insist upon additional guarantee at the time of settlement to ensure regular payments.

The analogy comes out from above discussion that industrial development of a State like Sikkim is dependent not only on money alone but also on the manpower, expertise and entrepreneurial ability to bear risk of industrial venture. In Sikkim, industrial environment and business culture have not developed as yet to make promising entrepreneurs mostly of first-generation entrepreneurs capable of bearing the risk of their investment.

The Corporation with all possible measures must overcome the situation for its survival. It may be suggested to create some social and legal pressure upon the borrowers to repay their dues, keeping in mind the urgency of growth of small scale sector in the backward region to fulfil the aspiration and objects of the Corporation. Further, continuous cyclical and quantitative flow of credit should be maintained to ensure flow of funds from the lender to the borrower and vice versa and thereby bringing maximum number of needy industrial units under the coverage of financial accommodation to help total growth of the economy of Sikkim.

REFERENCES

1. SIDICO, Annual Report, 1993-94, pp. 15-20.
2. SIDICO, Arrear-wise Analysis of Loan Portfolio, 1994, pp. 8-10.
3. Ibid, p.11.
4. Ibid.
5. Ibid, p.14.
6. IDBI, Performance Evaluation Study Report, 1992-93, p.13.
7. SIDICO, Annual Report, 1994-95, p.5.
8. All India Reporter, Re. M/s. S. Kandasari Sugars, Narasimhunipet, Vs. Government of Andhara Pradesh and Others, 1976, p.93, quoted by S. Sikidar, 'Development Banking', 1985, p.118.

Table IX.1

TOTAL DEMAND AND RECOVERY OF PRINCIPAL AND INTEREST

(Rs. in Lakhs)

Year ended 31st March	Demand	Recovery	Recovery as % to Demand
1980	0.3	0.1	33.3
1981	2.4	0.8	33.3
1982	3.2	2.3	72.0
1983	19.9	8.2	41.2
1984	50.5	16.3	32.3
1985	81.2	23.0	28.3
1986	134.6	40.6	30.2
1987	199.3	80.0	40.2
1988	336.5	85.9	25.5
1989	502.1	117.2	23.3
1990	623.6	219.3	35.2
1991	719.1	105.6	14.7
1992	1173.8	137.3	11.7
1993	1379.2	109.3	7.9
1994	1760.7	118.9	6.7
1995	2070.3	111.9	5.4
Compound growth rate	73.7	55.1	

Source : Annual Reports, 1979-95, SIDICO.

Table IX.2

RECOVERY OF PRINCIPAL

(Rs. in Lakhs)

Year	Demand		Recovery		% of Recovery to Demand	
	Amount	Cumulative	Amount	Cumulative	% Annual	% Cumulative
1977-78	-	-	-	-	-	-
1978-79	-	-	-	-	-	-
1979-80	0.3	0.3	0.1	0.1	33.3	33.3
1980-81	2.4	2.7	0.1	0.2	4.2	7.4
1981-82	3.2	5.9	2.3	2.5	71.9	42.4
1982-83	10.5	16.4	8.2	10.7	78.1	65.2
1983-84	16.7	33.1	13.4	24.1	80.2	72.8
1984-85	23.4	56.5	18.1	42.2	77.3	74.7
1985-86	43.9	100.4	19.1	61.3	43.5	61.0
1986-87	47.1	147.5	55.4	116.7	117.6	79.1
1987-88	70.8	218.3	63.2	179.9	89.3	40.9
1988-89	138.4	356.7	58.6	238.5	42.3	66.9
1989-90	118.0	474.7	116.9	355.4	99.0	74.9
1990-91	135.7	610.4	59.3	414.7	43.7	67.9
1991-92	360.0	970.4	56.6	471.3	15.7	48.6
1992-93	225.9	1196.3	46.8	518.1	20.7	43.3
1993-94	261.7	1458.0	53.2	571.3	20.3	39.2
1994-95	181.5	1639.5	46.1	617.4	25.4	37.6

Source : Annual Reports, 1977-95, SIDICO.

Table IX.3

RECOVERY OF INTEREST

(Rs. in Lakhs)

Year	Demand		Recovery		Recovery as % to Demand	
	Annual	Total	Annual	Total	% Annual	% Total
1984-85	21.4	37.8	6.3	11.1	29.4	29.4
1985-86	32.5	59.2	9.0	21.5	27.7	36.3
1986-87	58.1	95.8	12.3	25.5	21.2	26.6
1987-88	115.2	185.6	23.7	49.3	20.6	26.6
1988-89	112.5	248.8	28.2	60.7	25.1	24.4
1989-90	111.4	282.3	40.1	102.4	36.0	36.3
1990-91	170.3	350.5	20.3	54.8	11.9	15.6
1991-92	181.8	477.6	65.7	80.6	36.1	16.9
1992-93	212.0	608.9	53.1	62.5	25.0	10.3
1993-94	229.6	776.0	-	67.2	-	8.6
1994-95	247.1	956.9	-	65.8	-	6.9

Note : Total of Demand and Recovery includes the respective arrear of Previous Year.

Source : Annual Reports, 1984-95, SIDICO.

Table IX.4

RECOVERY AND REPAYMENT OF PRINCIPAL BY SIDICO

(Rs. in Lakhs)

Year ended 31st March	Recovery from Units	Repayment to IDBI	Repayment as % of Recovery
1981	0.1	0.9	900.0
1982	2.3	3.8	165.2
1983	8.2	5.4	65.8
1984	13.4	11.5	85.8
1985	18.1	18.8	103.9
1986	19.1	32.9	172.2
1987	55.4	43.6	78.7
1988	63.2	51.1	80.8
1989	58.6	87.8	149.8
1990	116.9	104.4	89.3
1991	59.3	128.7	217.0
1992	56.6	166.1	293.5
1993	46.8	73.4	156.8
1994	53.2	2.1	3.9
1995	46.1	23.2	50.3

Source : Annual Report, 1995, SIDICO, pp. 22-28.

Table IX.5**PRINCIPAL OUTSTANDING (CUMULATIVE)****(Rs. in Lakhs)**

Years ending 31st March	Term Loan	Bridge & Other Loan	Total
1978	0.6	-	0.6
1979	4.3	-	4.3
1980	21.6	-	21.6
1981	48.3	5.1	53.4
1982	68.8	6.1	74.9
1983	103.8	5.8	109.6
1984	136.0	11.4	147.4
1985	241.5	18.0	259.5
1986	348.8	30.4	379.2
1987	486.7	47.3	534.0
1988	791.6	48.3	839.9
1989	953.1	75.2	1028.3
1990	1137.9	43.3	1181.2
1991	1357.2	46.2	1403.4
1992	1554.9	49.8	1604.7
1993	1630.2	249.3	1879.5
1994	1625.1	249.3	1874.4
1995	1673.6	249.3	1922.9

Source : Annual Report 1995, SIDICO, p.22.

DISTRICT-WISE ARREAR OF LOAN

(Rs. in Lakhs)

Districts	No. of Units	Outstanding Principal	Arrear (A)	Interest Arrear on Arrear(B)	Total (A+B)
East	418	1132.5	679.1	460.1	1139.2
West	49	107.7	49.9	44.9	94.8
North	156	47.6	41.7	30.7	72.4
South	77	347.7	161.3	146.8	308.1
	710	1635.5	932.0	682.5	1614.5

Source : Arrear-wise analysis of Loan, 1994, SIDICO, pp.3-12.

Table IX.7

INDUSTRY-WISE ARREAR OF LOAN

(Rs. in Lakhs)

Type	Units	Outstanding Principal	Arrear (A)	Interest Arrear on Arrear(B)	Total (A+B)
1. Food & Food Products	35	204.7	96.3	70.2	166.5
2. Textile & Textile Products	182	48.0	28.2	20.5	48.7
3. Wood & Wood based	98	18.1	13.3	9.5	22.8
4. Metal & Metal Products	19	179.7	116.8	85.9	202.7
5. Paper & Paper Products	14	67.6	67.6	49.8	117.4
6. Electric & Electronics	12	17.9	17.3	12.4	29.7
7. Leather & Leather Products	7	2.1	2.1	1.5	3.6
8. Chemical based	4	57.5	24.1	17.6	41.7
9. Plastic & Plastic based	3	131.1	104.6	76.2	180.8
10. Hotels	111	299.4	140.5	120.3	260.8
11. S.V.O.	104	83.2	59.5	33.4	93.1
12. Services	80	57.4	44.3	32.2	76.5
13. Others	41	468.8	217.4	153.0	370.1
	710	1635.5	932.0	682.5	1614.4

Source : Arrear-wise analysis of Loan, 1994, SIDICO, pp.3-8.