Fiscal Policy Institute

Project Report

A Study on Restructuring of State Level Public Sector Sick Companies in Karnataka

Submitted as part of Summer Internship

By

LAXMIKANT JHAWAR
Christ University

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Chapter 1

Executive Summary

1 EXECUTIVE SUMMARY

1.1 Study Title

A Study on Restructuring of State Level Public Sector Sick Companies in Karnataka

1.2 Statement of Problem

Industrial Development is an effective means to further economic growth. However industrial sickness has become a common feature of the Private and Public Sector Undertakings in India. In spite of the enactment of the Special Legislations and various steps taken by the Government and RBI to deal with the problem, industrial sickness is growing at an alarming pace. The liberalization of the economy resulting into increased competition has added to the problem of industrial sickness. This study makes an attempt to analyze the cause of sickness and restructuring of sick companies into competitive entities.

1.3 Scope of the Study

This study analysis various aspects of Legal formalities which have to be complied during the course of Corporate Restructuring and, the role of Government in undertaking the scheme of Restructuring of Public Sector Sick Companies.

This study also gives necessary suggestions to the Government of Karnataka to avoid the public sector companies getting sick in future.

1.4 Objectives of the Study

- To understand the detail process and various legal formalities involved in conversion of sick company into a healthy company.
- To understand the role of Board of Industrial and Financial Reconstruction(BIFR) in Sanctioning the Scheme of Restructuring
- To understand the role of Government of Karnataka in providing Rehabilitation finance to the sick companies.
- To analyze restructuring strategy adopted by KSFC and KSDL.

1.5 Limitations of the Study

- The information gathered from the secondary sources is limited and the recommendations suggested are within the purview of limited information gathered.
- The analysis was mostly based on the secondary data. So, any error in the secondary data might also affect the study undertaken.

Chapter 2
Introduction

2 INTRODUCTION

2.1 Definition of Sick Industrial Company:

- An industrial company (being a company registered for not less than five years) and having at the end of any financial year accumulated losses equal to or exceeding its entire net worth.
- It must be an industrial company but does not include an ancillary industrial undertaking or a small scale industrial undertaking as defined under IDRA.
- The company should be in an existence for atleast 5 years since the date of incorporation.

2.2 Background

Sickness in Industry in our country has existed along with healthy industrial enterprises. It has registered a quantum jump with the onset of the new economic order, ushered in by liberalization & globalization. With this the approach to handle sickness has also undergone a gradual change. The Industrial Reconstruction Corporation of India (IRCI) was established in 1980's to provide financial assistance to sick units. In 1985 the Sick Industrial Companies (Special Provisions) Act 1985, was enacted, where interested companies were invited to takeover, lease or amalgamate the sick Company into itself. Then in 1993, the public sector companies were brought under the purview of BIFR,.

There are certain Public Sector Enterprises (PSEs), which have been incurring losses continuously for the last several years and in a number of cases their accumulated losses have surpassed their net worth, making the enterprises financially weak. Reasons for losses/sickness are manifold and may vary from unit to unit.

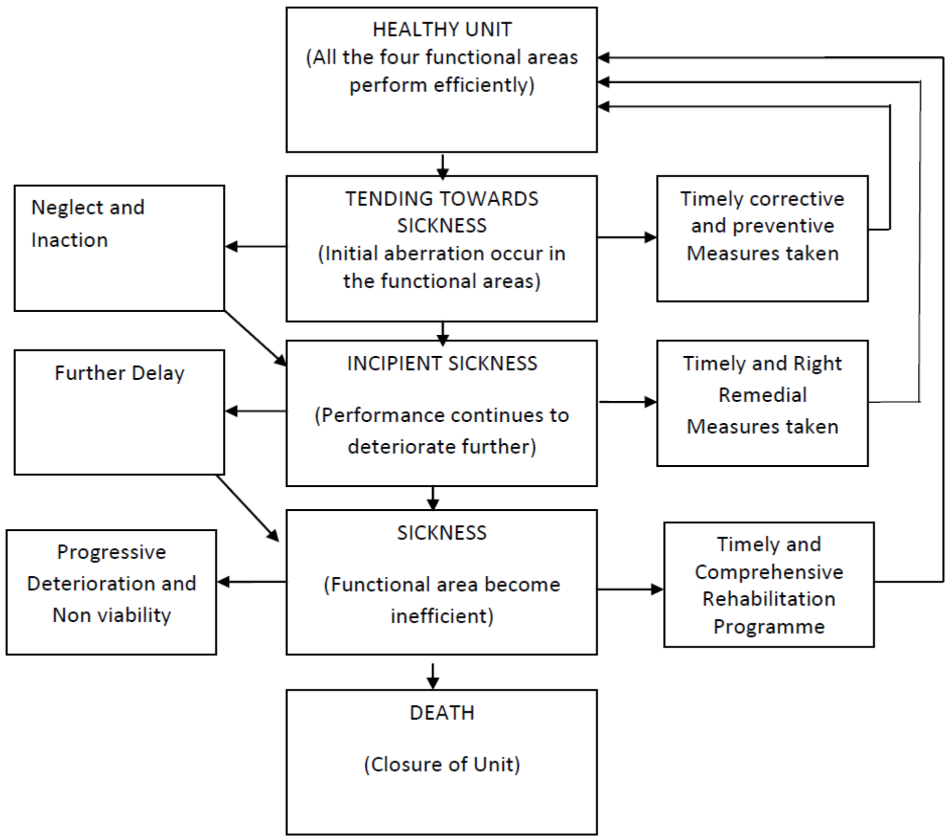
However, some common problems faced/ being faced by sick and loss making PSEs include old and obsolete plant and machinery, outdated technology, resource crunch, low capacity utilization, low productivity, excess manpower, heavy interest burden, inadequate and unfocussed marketing, stiff competition, shortage of working capital, inadequate emphasis on research and development, inefficient management, high input cost, erosion of net-worth due to continuous losses and inherent problems of sick taken over enterprises, etc.

According to Department of Public Enterprise, Sickness in PSEs has been the subject matter of concern in the Government for quite some time particularly in the changed economic environment wherein resource generation through commercial functioning of enterprises is of paramount importance.

Therefore, attempts have been made to overcome this problem through various policy initiatives or otherwise from time to time. The PSEs were brought under the purview of Sick Industrial Companies (Special Provision) Act, 1985 (SICA) which was amended in 1991 and made effective from 1992. The Budget Speeches, the Industrial Policy Statements/Resolutions and other documents have addressed this problem and made policy announcements from time to time.

2.3 Stages of Sickness

Figure showing stages of Sickness.



2.4 Signal and Symptoms of Sickness

- Sick companies start throwing up signal, which need to be identified and monitored before the unit becomes gravely sick. A Large number of signals are displayed by failing units initially. In the early stages of sickness, the warning signs in several functional areas are termed as signals.
- The persistence of these signals over a long period becomes symptoms of sickness. A company tends to show signs of financial distress starting with short term liquidity problems, revenue losses, operating losses and moving in the direction of over use of external credit until it reaches a stage where it is

overburdened with debt and not being able to generate sufficient funds to meet its obligations.

- The signals gradually merge into symptoms and get related to plant performance, capacity utilization, financial ratios, share market price, practices in the area of finance, production, marketing and labour relations.
- While the existence of the signals and symptoms is a ground for suspecting that the company concerned is prone to sickness, the magnitude of sickness cannot be predicted on these grounds alone. An objective analysis of companies (Sick vs. Healthy) financial condition over a time period is necessary.

2.5 Adverse impact of Sickness:-

Companies that have gone sick have bad consequences on the economy of the nation. The following are the effects of industrial sickness.

- There is under utilization of capital assets.
- The entrepreneurship level declines. In economics land, labour and capital are referred to as the factors of production. It is only entrepreneurship of project promoters that brings together the factors of production for accomplishing the task of nation building. Increase in industrial sickness discourages entrepreneurship.
- The investor confidence reaches lower. Thus, capital is not put to productive use.
- Companies' sickness results in large scale unemployment and industrial unrest.
- Profitability of banks and financial institutions gets affected since they don't get back their funds invested in projects that have gone sick. Nor do they earn interest on their invested funds.

Therefore, prevention of sickness and rehabilitating sick projects assume greater importance

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2.6 Leading indicators of sickness:

Industrial sickness can be identified by the following symptoms. These symptoms act as leading indicators of sickness, and if immediate remedial actions are not taken, the sickness will grow to the extent that the organization will find its natural death.

- Continuous reduction in turnover.
- Piling up of inventory.
- Continuous reduction of net profit to sales ratio.
- Short term borrowings at high interest rate.
- Continuous cash losses leading to erosion of tangible net worth.
- Default in payment of interest on borrowings and default in repayment of term loan installments.
- The 'sundry debtors' as well as the 'sundry creditors' keep growing and reaching a disproportionately high level.
- Approaching the banker for temporary over draft at frequent intervals.
- High turnover of personnel, especially at senior levels.
- Change in accounting procedure with to view to window dressing.
- Delay in finalization of accounts.

2.7 Reasons for Sickness

Losses are due to drainage of resources on wasteful or unnecessary expenditure. Sickness is caused by prolonged periods of losses sustained by the company.

- There are two main categories:

1. Internal Reasons

2. External Reasons

2.7.1 Internal reasons

- Mismanagement
- Underestimation of the cost of the project
- Delay in the implementation of the project
- Increase in cost due to delay in implementation of project
- Under utilization of resources
- Diversion of Funds
- Lack of Management depth
- Bad Industrial Relations
- Bureaucratic management
- Inadequate working capital
- Heavy Expenditure in Advertisements

2.7.2 External Reasons

- Adverse government rules and regulations
- Adverse Price Control Policy
- Recession Trend/economic conditions
- Tough Competition
- Shortage of Manpower, Raw Materials etc.
- Changes in Technology
- Changes in Consumer Behavior
- Shortage of Power Supply
- Delay in getting any financial assistance.

Chapter 3
Study Design

3 STUDY DESIGN

3.1 Sources for Data Collection

Mainly secondary data has been used for preparation of the report; the primary data has been used in the process of analyzing the restructuring process and the role of Government of Karnataka in turnaround of Public Sector sick companies in Karnataka.

3.2 Data Collection

The following companies will be considered in this study:

- Karnataka State Financial Corporation (KSFC)
- Karnataka Soaps and Detergents Limited (KSDL)

Secondary data has been collected from annual reports of Karnataka State Finance Corporation (KSFC) and Karnataka Soaps and Detergents Limited (KSDL)

Primary data has been collected from the Department of Public Sector Enterprise, Government of Karnataka through personal interview process

3.3 Methodology of the Study:

On the basis of secondary data, following tests have been be conducted to evaluate the performance of the company before and after adopting restructuring strategy.

- **Liquidity test**

Liquidity or short-term solvency is an attribute that signifies to meet the financial obligation as and when required. The liquidity ratios are used to measure the short-term solvency of a firm. Current liabilities are used as the denominator of the ration because they are considered to represent the most urgent debt requiring retirement within one year or most preciously, within one operating cycle. The available cash resources to satisfy these obligations must come primarily from cash or the conversion of cash of other current assets. A firm should ensure that it does not suffer from lack of liquidity, and also that it is not too highly liquid.

- **Working Capital Investment Efficiency Test**

In order to substantiate the liquidity test, it is essential to test the working capital Investment efficiency test also, because inventory and accounts receivable (debtors), the two important constituents of current assets, may sometime block the proprietors fund.

These are the common working capital investment efficiency ratios:-

a) Inventory Turnover Ratio (Cost of Sales/Inventory)
b) Days Inventory Outstanding (365/ITR)
c) Debtors Turnover Ratio (Sales/Debtors)
d) Days Sales Outstanding (365/DTR)

- **Altman's Z score Model**

The solvency test plays an important role in the management of companies. The detection of a firm’s operating and financial condition is a subject which is analyzed with various financial ratios. The problem with this approach is that each ratio is unique and tells a different story about a firm’s financial health. Many a time, they even appear to contradict each other. Having to rely on a bunch of individual ratios, the analysts may find it confusing and difficult to analyze the company as a whole.

Rather than searching for a single best ratio, Prof. Edward Altman has built a new model that distils five key performance ratios into a single score called Z-Score, which gives investors a good snapshot of a firm’s financial health. The model uses five ratios to consider both financial problem (X1, X2, and X4) and operating problems (X3 and X5) of the firms. He has also used multiple discriminate analysis weightage used for the different ratios, which are:-

$X1$ = (Working Capital/Total Assets) * 0.717

$X2$ = (Retained Earnings/Total Assets) * 0.847

$X3$ = (EBIT/Total Assets) * 3.107

$X4$ = (Capital Fund/Total Liabilities) * 0.42 and

$X5$ = (Sales/Total Assets) * 0.998

The final Z-Score is arrived at by adding all the above i.e., $Z = X1 + X2 + X3 + X4 + X5$

Prof. Altman has empirically tested all the above ratios and arrived at the following conclusions:-

- If Z-Score is above 2.90, the firm is in good financial position;
- If the score is between 1.21 and 2.90, indicates the warning signals leading to firms poor financial health; and
- If the Z-Score is below 1.21, means the firm is tending towards bankruptcy.

3.4 Tools for Data Analysis

The secondary data collected from Annual Reports of companies are represented in the form of Charts, tables and graphs, which facilitates better comprehension of data.

Chapter 4
ACTS & PROCEDURES

4 ACTS AND PROCEDURES

4.1 Sick Industrial Companies (Special Provisions) Act, 1985

- In the wake of sickness in the country's industrial climate prevailing in the eighties, the Government of India set up in 1981, a Committee to examine the matter and recommend suitable remedies . Based on the recommendations of the Committee, the Government of India enacted a special legislation namely, the Sick Industrial Companies (Special Provisions) Act, 1985 commonly known as the SICA
- The main objective of SICA is to determine sickness and expedite the revival of potentially viable units or closure of unviable units (unit here in refers to a Sick Industrial Company). It was expected that by revival, idle investments in sick units will become productive and by closure, the locked up investments in unviable units would get released for productive use elsewhere.

4.1.1 The Act & its objective

For Industrial Companies becoming sick in India, the Government formulated the 'Sick Industrial Companies (Special Provisions) Act, 1985' (or SICA) which got amended in the year 1993, with the following prime objectives:

- To timely detect the sick and potentially sick industrial companies,
- To speedily take preventive, ameliorative, remedial & other measures and
- To enforce the measures so determined

The other main objectives of this Act (SICA) as incorporated in its preamble, emphasizes the following points:

- SICA had been enacted in the public interest to deal with the problems of industrial sickness with regard to the crucial sectors where public money is locked up.
- It contains special provisions for timely detection of sick and potentially sick industrial companies, speedy determination and enforcement of preventive, remedial and other measures with respect to such companies.
- Those measures are to be taken by a body of experts.
- The measures are mainly

(a) Legal

(b) Financial restructuring

(c) Managerial

The 1993 Amendment to the Act lays down that an inquiry shall be deemed to have commenced upon receipt by the Board of any reference of information or upon its own knowledge reduced to writing by the Board

Important Provision of SICA

- The implementation of SICA involved setting up of two bodies:

1. BIFR – The Board for Industrial and Financial Reconstruction
2. AAIFR – The Appellate Authority for Industrial and Financial Reconstruction

4.2 The Board for Industrial and Financial Reconstruction (BIFR)

- The SICA provides for the establishment by the Central Government of a Board of Industrial and Financial Reconstruction (BIFR) to exercise the jurisdiction and powers and discharge the functions and duties conferred or imposed on the Board by the Act.

- It consists of a chairman and not less than two and not more than fourteen members appointed by the Central Government.

- The Board of experts named the Board for Industrial and Financial Reconstruction (BIFR) was set up in January, 1987 and functional with effect from 15th May 1987.

4.2.1 Reference to the BIFR under the SICA

Under the Act, other than the Board of Directors of the Company, the following authorities/institutions may refer a sick company to the BIFR:

- The Central Government

- The Reserve Bank of India

- State Government (where all or any of the undertakings belonging to such company are situated in such State)

- Public financial institution (where it has an interest in the Company by any financial assistance or obligation, rendered by it or undertaken by it)

- A State level Institution (where it has an interest in the Company by any financial assistance or obligation, rendered by it or undertaken by it)

- A Scheduled bank (where it has an interest in the Company by any financial assistance or obligation, rendered by it or undertaken by it)

4.3 BIFR Procedure

4.3.1 Reporting to the BIFR

- The Board of Directors of a sick industrial company is required, by law, to report the sickness to the BIFR within 60 days of finalization of audited accounts, for the financial year at the end of which the company has become sick.
- BIFR has prescribed a format for this report. While reporting by a company of its sickness to the BIFR is mandatory as per the provisions of law, any other interested person/party can also report the fact of sickness of a company to the BIFR.
- Such interested parties may be the financial institution/bank that has lent loan to the company, the RBI, the Central/State Governments.
- The BIFR has prescribed a different format for the report to be submitted by such interested parties. When a company has been financed by a consortium of banks, it is the Lead Bank that should report to the BIFR about the sickness under advice to other participating banks in the consortium.

4.3.2 Enquiry by the BIFR

- When a case is referred to the BIFR, it is verified by the Registrar of the BIFR as to whether the fact of the case falls within the provisions of the Sick Industrial (Special provisions) Act, 1985.
- If so, the BIFR accepts the case and notifies a date for hearing the case. For rehabilitating a sick unit, cooperation of various connected agencies is a must. This co-ordination is achieved by the BIFR.
- The BIFR invites the representatives of the informant sick company, the representatives of concerned financial institutions and commercial banks, representatives of the Central/State Governments, trade union representatives etc., to the hearing and inquiry is made under section 16 of the Act.

- After the hearing, the BIFR itself may conduct a study or entrust the work to an 'operating agency' appointed by it to determine whether the company is in fact sick. Normally, the lead financial institution (IDBI, ICICI, IFCI, SFC) or the lead public sector bank that has financed the company is nominated as the operating agency.
- Lead institution is one that has major financial stake in the sick company. The enquiry is to be completed within 60 days. On completion of the enquiry, the BIFR will declare whether the company is sick or not.

4.3.3 Revival Package

- Once a company has been found sick, the BIFR may grant time to the sick company to enable it to make its net worth positive and bring the company out of sickness, without any external financial assistance.
- If it is found infeasible for company to make its net worth positive without any external financial assistance, or if the BIFR decides that the company cannot make its net worth positive Rehabilitation of Sick Units within a reasonable time, the BIFR will direct the operating agency to prepare a suitable revival package for the restoration of the health of the company.
- The operating agency prepares a suitable revival package. The revival package may vary from case to case depending on the nature of the problem and may include additional financial assistance, postponement of recovery of loan already lent by banks and financial institutions, change in management, amalgamation, sale of redundant assets, lease of assets or any other suitable measure.
- The revival package should be submitted to the BIFR within a time limit of 90 days or such extended period as may be granted by the BIFR. On submission of the revival package by the operating agency, the BIFR sends the revival package in a draft form to all the interested parties (*i.e.*, the sick industrial company, the banks/financial institutions who have given financial assistance to the sick company, the operating agency, the transferee company (if there is a

recommendation in the revival package for amalgamation) etc., eliciting their views/suggestions on the revival package.

- The BIFR will also publish particulars of the draft revival package in newspapers inviting suggestions/objections, if any, from the shareholders of the sick company, creditors and employees of the sick company, transferee company and any other interested party. On receipt of views/suggestions/objections on the draft revival scheme, the BIFR may, if deemed fit, afford an opportunity to the interested parties to be heard.
- After careful examination of all the aspects, the BIFR will sanction the revival scheme with or without any modifications.
- The scheme, as sanctioned, will come into force from the specified date and all the concerned parties are required to abide by the provisions of the revival scheme.
- The BIFR may also order the operating agency to implement the sanctioned revival scheme. When the revival package as finalized by the BIFR contains further financial assistance or reliefs, concessions, sacrifices etc. (for example, sanctioning of additional financial assistance for the purchase of certain balancing equipments, waiving of penal interest/compound interest charged, waiving of interest in part or full, waiver from sales tax etc.) the scheme will be circulated to the concerned agencies for their consent to be received within a period of 60 days.
- Once the various agencies involved in the revival scheme give their consent to the scheme, it will become binding on the consenting parties to implement the recommendations contained in the revival scheme.
- However, when any of the involved agencies does not give its consent to the scheme, the BIFR has no powers to force the agency to accord its consent. If in the opinion of the BIFR, the revival package cannot be successful without the consent from one or more of the agencies involved, the BIFR has no other option but to recommend for winding up of the company. In fact, the threat of actual winding up of the company is the only weapon in the hands of the BIFR to make the various

agencies to extend suitable reliefs and concessions as may be deemed necessary by the BIFR.

- BIFR itself cannot initiate the winding up proceedings. It can only forward its opinion to the concerned High Court and the High Court will initiate the winding up proceedings.

4.4 Role of Government of Karnataka in revival/restructuring of Public Sector Sick Companies

Recognizing the socio-economic role being played by Public Sector Enterprises in the development of the state, Government of Karnataka has evolved a number of strategies from time to time for strengthening PSEs. Some of the strategies for restructuring/revival of PSEs including sick units on long-term basis include:

- Revival of PSEs through the process of BIFR;
- Financial restructuring wherever appropriate;
- Formation of joint ventures by induction of partners capable of providing technical, financial and marketing inputs;
- Infusion of fresh funds;
- Organizational and business restructuring;
- Human resources development including manpower rationalization through approved Voluntary Retirement Scheme (VRS);
- Improved marketing strategies;
- Modernization and technological innovations;
- Cost control measures.

The major strategies for restructuring of PSEs including sick units on long term basis are as follows:

(i) **Financial restructuring**: Investment is made in PSEs by the Government in the form of equity participation, providing loan or plan/non-plan assistance/grants or through the revival packages which involve substantial outgo from the Government or write-off of past losses and infusion of fresh capital, etc. Generally the plan assistance is provided for expansion or undertaking new projects by the PSEs. Measures such as waiver of loan/interest/penal interest, conversion of loan into equity, conversion of interest including penal interest into loan, moratorium on payment of loan/interest, Government guarantee, etc. are also taken to improve the financial strength of the company particularly in the case of sick and loss making enterprises.

(ii) **Business restructuring**: Change of management, organizational restructuring, hiving off viable units from PSEs for formation of separate company, closure of unviable units, formation of joint ventures by induction of partners capable of providing technical, financial and marketing inputs, change in product mix, improving marketing strategy, etc. are the steps taken under the business restructuring process as per need on case to case basis.

(iii) **Manpower rationalization**: In order to shed excess manpower, the Voluntary Retirement Scheme (VRS) is introduced by the PSEs from time to time. In case of PSEs found unviable and decided to be closed, the Voluntary Separation Scheme is introduced in such units. Retrenchment is adopted as the last resort in exceptional circumstances.

4.5 Role of Board of Industrial and Financial Reconstruction (BIFR)

Board of industrial and Financial Reconstruction (BIFR) was established by the Central Government, under section 3 of the Sick Industrial Companies (Special provisions) Act, 1985.BIFR deals with issues like revival and rehabilitation on sick companies, winding up of sick companies, institutional finance to sick companies, and amalgamation of companies etc.

BIFR is a quasi judicial body.

The role of BIFR as envisaged in the SICA (Sick Industrial Companies Act) is:

(*a*) Securing the timely detection of sick and potentially sick companies

(*b*) Speedy determination by a group of experts of the various measures to be taken in respect of the sick company

(*c*) Expeditious enforcement of such measures

Chapter 5
Analysis & Findings

5 ANALYSIS & FINDINGS

5.1 Karnataka Soaps and Detergents Limited (KSDL)

5.1.1 Profile

KSDL came into existence with the prime objective of manufacturing and marketing of personal care products using natural ingredients like sandalwood oil. Accordingly it has drawn its Vision, Mission and objectives indicating the targets to be achieved

The company introduced several range of products. The entry of several multinational companies into FMCG sector after the liberalization of Indian economy created stiff competition in the market. KSDL could not increase its market share of its products. The company was not able to utilize its full capacity. Due to the under utilization of the capacities and the heavy interest on loans, the company incurred losses to an extent of about Rs. 99 crores by the year 1994

The company was referred to Board of Industrial and Financial Reconstruction (BIFR) and a rehabilitation package was given to revive the company. With the efforts of management in implementing of rehabilitation scheme, the company started making profits, and was able to pay back all the loans to different financial institutions since 2002. KSDL has improved its turnover from Rs. 100 crores during 2002 to Rs 162 crores during 2008. It is making profits from last six years and the network of the company is about Rs. 56.95 crores

5.1.2 BIRDS EYE VIEW OF KSDL:

1918 - Govt. Soap factory started by Maharaja of Mysore & the Mysore Sandal Soap was introduced into the market for the first time.

1950 - The factory was renovated.

1. Renovating the whole premises.
2. Installing a new boiler soap building plant & drying chamber.

1954 - Received License from government to manufacture 1500 tons of soap & 75 tons of glycerin per year.

1957- Factory shifted its operations to Rajajinagar industrial area.

1975- Rs3crores synthetic Detergent plant was installed based on Ballestra SPA (Italy) technology.

1981- a. Production capacity was increased to 6000 tons.

b. Rs.5 crores Fatty acid plant was installed with technical collaboration from Europe.

1992- Company filed an application with The Board for Industrial & Financial Reconstruction (BIFR), New Delhi in December for rehabilitation.

1996- The BIFR approved the Rehabilitation scheme in September.

1999- ISO 14001 Certificate pertaining to Environmental Management System.

2000- In May, the BIFR, New Delhi Declared the Company to be out of the purview.

2004- The company launched Herbal Care Soap.

5.1.3 SWOT ANALYSIS OF KSDL:

STRENGTHS:

- Only soap in India that contains pure sandal and almond oil.
- Certified by ISO
- World`s largest production of sandalwood oil.
- Brand name from decades in soap market.
- Diversified product range helps the company to maintain stability.
- It has very good dealership network in south which ensures that the products reach every customer.

WEAKNESSES:

- Distribution network weak in north and east.
- Absence of television advertisement
- Low turnover resulting in low profit.
- High oriented cost due to excessive labour force.

OPPORTUNITIES:

- Government support and large production capacity.
- Advantages of being in the industries for a long time.
- Existence of vast market and huge demand.

THREATS:

- There is a need for renovation of plant and machinery.
- Government Policy may reduce growth potential.
- Other sandal soaps in the market. Entry of the new multinationals in soap Business.

5.1.4 Reasons for Sickness of KSDL:

- Imbalances in production equipments and machineries particularly in the area of pre treatment of input materials
- Marketing strategy was not efficient
- Interest costs of the company remained high on account of increased term loans from the institutions and additional interest on account of failure in services of such loans
- Not able to utilize full capacity
- Inability of the promoters to infuse timely funds for modernization of plant and machinery and strengthening of distribution network and resorting to advertisement which are very important for an industry like soap and detergents.

5.1.5 Turnaround of KSDL:

Following are the measures taken by the management to turnaround KSDL

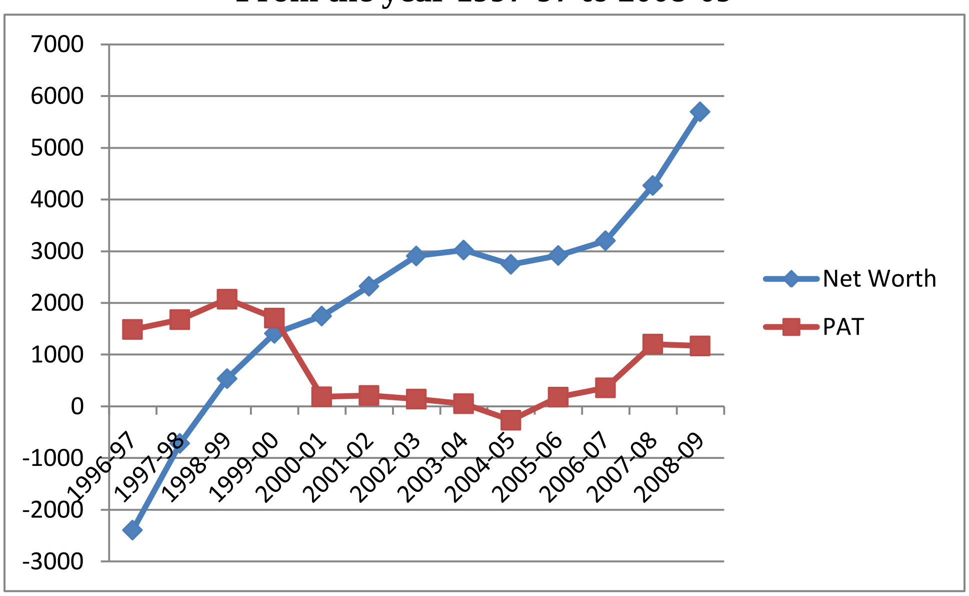
- KSDL has increased production of “premium” soaps there by contributed to increased sales and higher margin
- Government of Karnataka extended support by supplying the sandalwood at administrative prices and by giving tax incentives
- The company took stringent measures at cost reduction by introducing energy efficient techniques, phasing out unviable process operations, effective use of manpower and machinery.
- KSDL entered into Memorandum of Understanding (MoU) with the Department of Public Enterprise, Government of Karnataka. It is mutually agreed document setting out the vision, Mission and objectives along with parameters for monitoring and evaluating the performance of KSDL.

5.1.6 Analysis of Net worth and Profit after Tax

(In Lakhs)

Year	Net Worth	PAT
1996-97	-2392.43	1487.9
1997-98	-715.58	1676.85
1998-99	536.32	2071.95
1999-00	1411.33	1706.52
2000-01	1746.13	184.79
2001-02	2321.95	210.92
2002-03	2907.80	140.84
2003-04	3022.12	51.62
2004-05	2746.15	-267.9
2005-06	2917.29	178.78
2006-07	3203.60	358.55
2007-08	4270.08	1203.86
2008-09	5695.65	1168.14

Graph Showing Net worth and Profit After Tax (PAT) of KSDL From the year 1997-97 to 2008-09



The following graph shows the PAT (profit after tax) and NW (net worth) for the year 1996-1997 to 2008-2009:-

From the above graph we can interpret that the Net worth of KSDL in the financial year 1996-97 and 1997-98 was in negative. And over the years the position of the company improved. In the year 1996-97 the net worth was -2392.43 and in the year 1997-98 was -715.58, in the year 1996 the company filed an application with BIFR to seek rehabilitation scheme and due to implementation of rehabilitation scheme the company improved its position and touched a net worth of 5695.65 in 2008-09, which is highest in history of company. The company is performing well now and management is taking every possible effort to improve further the performance of the company.

5.1.7 Liquidity Test:

In order to test the liquidity of KSDL, two most popular ratios, viz., current ratio is worked out by dividing the current assets by current liabilities and quick ratio which is arrived at by dividing the quick assets by current liabilities are used. The quick assets are calculated by excluding inventory from the total current assets which is generally considered to be the most illiquid form of current assets. The liquidity position of KSDL is as follows:-

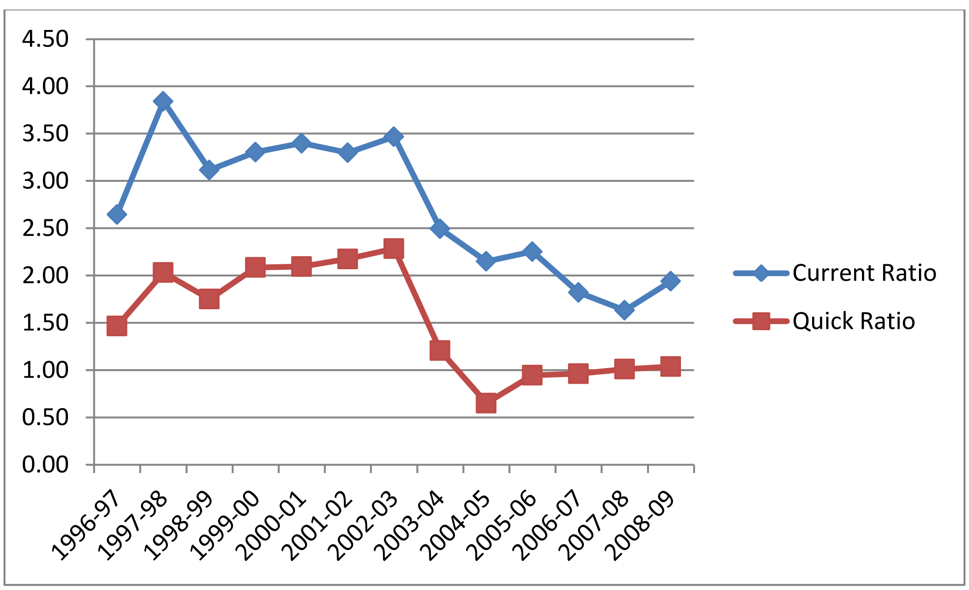
(In Lakhs)

Year	Current Assets	Liquid Assets	Current Liabilities
1996-97	3791.66	2101.95	1433.65
1997-98	4512.89	2387.71	1174.88
1998-99	5785.11	3253.35	1857.12
1999-00	7138.96	4506.26	2160.27
2000-01	5613.91	3460.47	1652.01
2001-02	6225.64	4105.51	1887.5
2002-03	6985.88	4602.24	2014.54
2003-04	7248.04	3507.26	2905.67
2004-05	6363.01	1925.27	2958.85
2005-06	6057.67	2545.53	2689.45
2006-07	7440.73	3932.18	4085.67
2007-08	7767.43	4807.31	4755.22
2008-09	8761.13	4686.61	4516.07

Current Ratio and Quick Ratio of KSDL
From the year 1996-97 to 2009-09

Year	Current Ratio	Quick Ratio
1996-97	2.64	1.47
1997-98	3.84	2.03
1998-99	3.12	1.75
1999-00	3.30	2.09
2000-01	3.40	2.09
2001-02	3.30	2.18
2002-03	3.47	2.28
2003-04	2.49	1.21
2004-05	2.15	0.65
2005-06	2.25	0.95
2006-07	1.82	0.96
2007-08	1.63	1.01
2008-09	1.94	1.04

GRAPH SHOWING LIQUIDITY POSITION OF KSDL



Interpretation:

During the period of study 1996-97 to 2008-09, the current ratio is coming down every year except 1997-98 and 2008-09. It has come down from 3.84 in 1997-98 to 1.63 in 2007-08 and hence shown a consistent improvement in meeting the short term obligations of the company. Current ratio is calculated by taking numerator current assets while denominator current liabilities. Loans and advances have been assumed to be a long term so not included in Current Assets while the current liabilities included provisions on the assumption that they are short term obligations.

Quick ratio is calculated by taking numerator Quick Assets and denominator Quick Liabilities. In the absence of Bank over draft, Current liabilities are taken instead of quick liabilities.

During the project study 1996-97 to 2008-09 the company has shown good liquidity position. The liquidity ration of the company has been fluctuating from a high of 2.28 to a low of 0.65 in 2004-05. But the company’s liquidity position is satisfactory because of better management of inventory levels and the company has an excellent liquid position.

5.1.8 Working Capital Investment Efficiency Test:

(In Lakhs)

Year	Cost of Sales	Inventory	Debtors
1996-97	4079.04	1689.71	1584.3
1997-98	3945.55	2125.18	1648.67
1998-99	4009.5	2531.76	1821.01
1999-00	4946.85	2632.7	3148.15
2000-01	3009.96	2153.44	2327.6
2001-02	3697.46	2120.13	2747.61
2002-03	3555.41	2383.64	2645.54
2003-04	4138.47	3740.78	1042.3
2004-05	4189.83	4437.74	803.22
2005-06	3672.38	3512.14	688.37
2006-07	5070.94	3508.55	808.73
2007-08	5414.33	2960.12	1463.46
2008-09	8019.28	4074.52	1635.29

Table Showing Inventory Turnover Ratio and Debtors Turnover Ratio

Year	Inventory Turnover Ratio	Days Inventory Outstanding	Debtors Turnover Ratio	Days Sales Outstanding
1996-97	2.41	151.20	6.35	57.46
1997-98	1.86	196.60	6.65	54.90
1998-99	1.58	230.48	6.68	54.63
1999-00	1.88	194.25	4.76	76.60
2000-01	1.40	261.13	4.71	77.44
2001-02	1.74	209.29	4.00	91.28
2002-03	1.49	244.71	4.05	90.12
2003-04	1.11	329.92	8.90	41.02
2004-05	0.94	386.60	12.67	28.80
2005-06	1.05	349.07	16.11	22.65
2006-07	1.45	252.54	14.79	24.69
2007-08	1.83	199.55	9.94	36.71
2008-09	1.97	185.45	10.36	35.24

Interpretation:

Inventory Turnover Ratio denotes the speed at which the inventory will be converted into sales, thereby contributing for the profits of the concern. When all other factors remain constant, greater the turnover of the inventory more will be efficiency of its management. On the other hand, Debtors Turnover Ratio indicates the number of times on the average the receivables are turn over in each year. The higher the value of ratio, the more is the efficient management of debtors. In the case of the above data as reported, the Inventory Turnover Ratio was 2..41 (151 days outstanding of stock) in 1996-1997, remained steady during 1997-98 and 2003-04 without any major changes till it reached 0.94 (387 days) in 2004-05. It then started increasing and reached 1.97 (185 days) in 2008-09. Overall the company's performance was not satisfactory during the period of study.

Debtors Turnover Ratio was 6.35 (57 days outstanding in collection) in 1996-1997, improved steadily during the study period and declined in the year 1999-00 and reached 4.00 (91 days) in 2001-02. The company's performance was fluctuating subsequently. The company has tried to improve the efficiency and they have been able to maintain it at a required and satisfactory level.

5.1.9 Solvency Test:

The Z-Score values of KSDL is as follows:

(In Lakhs)

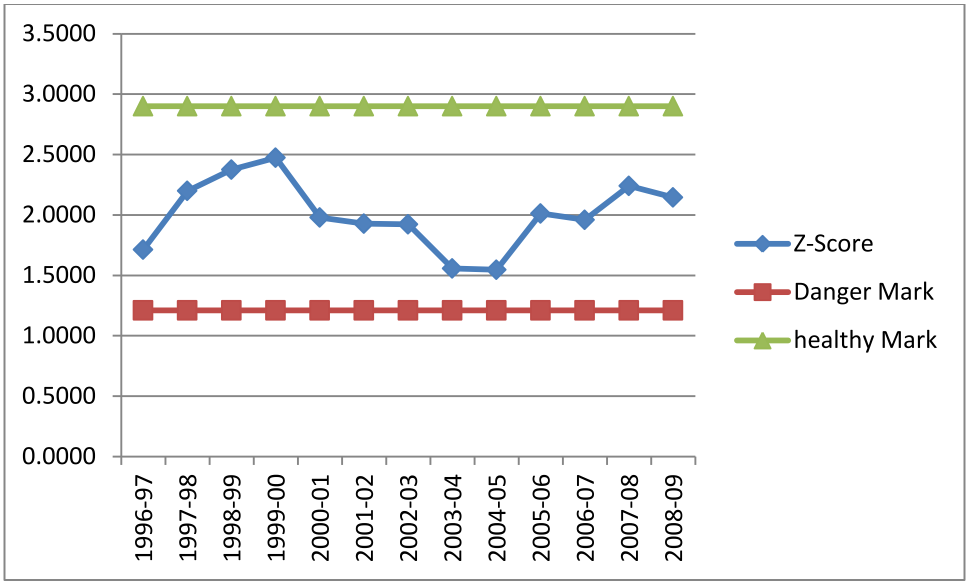
Details/Year	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Working Capital	2358.01	3338.01	3927.99	4978.69	3961.9	4338.14	4971.34	4342.37	3404.16	3368.22	3355.06	3012.21	4245.06
Total Assets	10400.94	9666.36	9979.29	10680.56	8403.93	8512.63	8529.24	9097.03	8679.6	7870.78	8884.8	10309.3	12300.28
Retained Earnings	0	0	0	0	0	0	9.91	17.1	0	0	150.7	1368.26	1308.93
EBIT	1718.21	2120.96	2383.22	2105.22	483.77	321.29	254.42	142.11	-166.33	325.5	516.1	1260.22	1283.3
Equity	1763.12	3182.21	3182.21	3182.21	3182.21	3182.21	3182.21	3182.21	3182.21	3182.21	3182.21	3182.21	3182.21
Total Liabilities	10400.94	9666.36	9979.29	10680.56	8403.93	8512.63	8529.24	9097.03	8679.6	7870.78	8884.8	10309.3	12300.28
Net Sales	10063.37	10960.13	12166.87	15000.81	10970.15	10986.23	10715.43	9274.5	10179.71	11092.11	11958.03	14552.85	16939.19

Details	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09
Working Capital/ Total Assets	0.23	0.35	0.39	0.47	0.47	0.51	0.58	0.48	0.39	0.43	0.38	0.29	0.35
Retained Earnings/Total Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.13	0.11
EBIT/Total Assets	0.17	0.22	0.24	0.20	0.06	0.04	0.03	0.02	-0.02	0.04	0.06	0.12	0.10
Capital /Total Liabilities	0.17	0.33	0.32	0.30	0.38	0.37	0.37	0.35	0.37	0.40	0.36	0.31	0.26
Sales/Total Assets	0.97	1.13	1.22	1.40	1.31	1.29	1.26	1.02	1.17	1.41	1.35	1.41	1.38

Z-Score (arrived at using the weightage factors)

Details	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09
X1	0.16	0.25	0.28	0.33	0.34	0.37	0.42	0.34	0.28	0.31	0.27	0.21	0.25
X2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.11	0.09
X3	0.51	0.68	0.74	0.61	0.18	0.12	0.09	0.05	-0.06	0.13	0.18	0.38	0.32
X4	0.07	0.14	0.13	0.13	0.16	0.16	0.16	0.15	0.15	0.17	0.15	0.13	0.11
X5	0.97	1.13	1.22	1.40	1.30	1.29	1.25	1.02	1.17	1.41	1.34	1.41	1.37
Z-Score	**1.71**	**2.20**	**2.37**	**2.47**	**1.98**	**1.93**	**1.92**	**1.56**	**1.55**	**2.01**	**1.96**	**2.24**	**2.14**

Solvency Test Using Z-Score Analysis



Interpretation:

The **Z-Score** started with 1.71 in 1996-97, above the standard score of 1.21 (Danger Level) indicating the position of the company is good enough. From the above graph it is very clear that the financial position of KSDL is good. The Z score level of KSDL is above the danger mark which implies that there is no risk of bankruptcy. The company can still further improve the Z-Score which indicates the liquidity and solvency. The Z score has slightly improved over the years but showed a fluctuating trend over the years. The improvement was due to control in inventory levels and various steps taken by the management to increase turnover and reduce cost.

5.1.10 Conclusion:

- KSDL has been making profits for the past three years. Due to the good performance during last three years, KSDL profits are increasing and it has paid dividend in the year 2007-08
- The turnover of the company has shown an increasing trend since 2004-05. The company's performance can be termed as excellent for the last two years.
- The company is comfortable in meeting the short term obligations. Both current ratio and Liquidity ratios are satisfactory.
- During the year of study, company's net worth showed a fluctuating trend
- The company lags behind the competitors in creating awareness, availability and change of attitudes.
- The Long Term solvency of the company in meeting long term obligation is satisfactory during the project period.
- Debtors Turnover Ratio is fluctuating over the years, but during the last five years it has increased significantly.
- Inventory Turnover Ratio also showed fluctuating trend over the years, but during last four years it is increasing.
- From the study of the company's performance for the past few years and the overall study of the organization, it can be concluded that KSDL has sufficient capital to meet its current obligations and day to day operations.
- The company is doing its best with its innovative ideas and new products.
- Marketing of the products also has improved. The company has selected very efficient distribution channels over the years.

5.2 Karnataka State Financial Corporation (KSFC)

5.2.1 Profile

The Karnataka State Financial Corporation is one of the fast track Term Lending Financial Institutions in the country, with assistance to more than 1,60,645 units amounting to nearly 9,101 crores rupees over the last 50 years in the State of Karnataka. It is one of the robust and professionally managed State Financial Corporations**.** Established in 1951 to meet the long-term financial needs of small and medium enterprises (SMEs), is today reviving and restructuring itself to face up to the challenges such as the high cost of borrowing, the high mortality rate of SMEs and falling margins.

KSFC gives financial assistance to set up tiny, small, medium and large scale industrial units in the Karnataka State. The Corporation extends term loans to new & existing unit's upto Rs. 500 lakhs for corporate bodies and registered co-operative societies. Term loans upto Rs. 200 lakhs are sanctioned to proprietary, partnership and joint Hindu undivided family concerns.

5.2.2 SWOT ANALYSIS

STRENGTH:

- Government of Karnataka is a major stakeholder in KSFC
- Wide network coverage in the state of Karnataka
- Human resources is very effective and efficient
- Provides quality service to various Small and Medium Enterprise
- Flexible repayment period.

WEAKNESS:

- Higher interest rates compare to Commercial Banks
- Adaptability of policies and procedure is very difficult.
- Lack of internal financing which leads corporation to depend on outside funding
- Very long procedure in some schemes

OPPORTUNITIES:

- Infrastructure development is what the companies are asking can be financed to large extent.
- Growing population provides an opportunity to innovate new products and services to serve them.
- The rate of growth of economy also provides an opportunity to extend the financial assistance to various.
- Development in infrastructure sector.

THREATS:

- Private bank likes ICICI, HDFC and commercial banks are very aggressive in financing loans by reducing their lower interest rate and processing time in their corporate finance.
- Some corporations like IDFC are focusing their operations only on particular area like infrastructure.
- Longer procedure, too many terms and conditions may create bad impression among the customer.
- Commercial banks are coming up with new innovative ideas for increasing the loan amount.

5.2.3 Reasons for Sickness of KSFC:

- **Inadequate financial controls**: KSFC in the year 2006 was stuck with accumulated losses close to Rs 600 crores and net ratio of 45 per cent and gross NPA of over 50 per cent. This had resulted in wiping out its equity. Net NPA's of KSFC amounted to Rs 597 crores.

- **Poor strategic choices:** Many enterprises where KSFC had invested have slipped into sickness and resulted in huge loses to KSFC

- **High operating costs:** KSFC had high cost of funds and establishment. Administration cost was a major portion of cost.

- **Competition from commercial banks:** the major reason for sickness of KSFC was the competition from commercial banks. Banks were targeting customers with innovative products and resulted in shifting of customers from KSFC to commercial banks.

- **Declining Interest Rates**: KSFC had borrowed funds from various financial institutions at higher interest rates with fixed tenure instruments at the rate 10-18% PA. And with the introduction of financial reforms the interest rates declined and KSFC left with higher interest products.

- **Refinance by the SIDBI was completely dry up.**

5.2.4 Restructuring of KSFC:

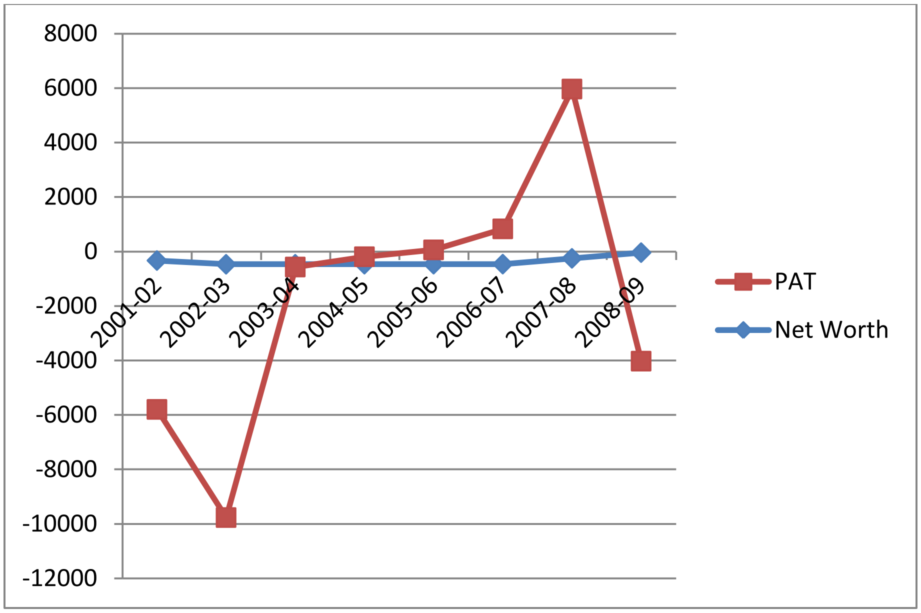
The Karnataka State Finance Corporation passed through difficult years. From the position of being a leader in the industry from mid 80s to mid 90s, the Corporation came down to a near closure in 2002-2003. However, with hard-work, creative business strategies, team effort of the staff and officers, leadership of the previous MDs, Chairman and the Directors on the Board and more importantly with the unstinted support of the Govt. of Karnataka, Govt. of India and SIDBI, the Corporation has successfully crossed all the bridges and has bounced back to good health. Today, KSFC is yet again a strong organization. KSFC re-emerged as a market leader backed by strong fundamentals and good working results.

KSFC has suffered huge losses and the erosion of net worth is last 8 years (2001-2002 to 2008-2009). The company has faced erosion of Net worth in the above mentioned period.

The following graph shows the PAT (profit after tax) and NW (net worth) for the year 2001-2002 to 2008-2009:-

(In Lakhs)

Year	Net Worth	PAT
2001-02	-330.94	-5465.00
2002-03	-468.68	-9297.79
2003-04	-467.80	-101.04
2004-05	-465.06	274.36
2005-06	-465.06	526.17
2006-07	-462.81	1295.37
2007-08	-250.65	6216.74
2008-09	-40.28	-3984.09



Turnaround of KSFC:

The Restructuring strategy adopted by the Management was as follows,

- Government of Karnataka helped through swapping of bonds for Rs. 300 crores.
- 'One Time Settlement' (OTS) scheme was extended to the defaulters of Karnataka State Finance Corporation (KSFC).
- Consolidation of financial results is one of the foremost priorities, KSFC activated reconstruction activities to hive off doubtful assets.
- Management had strict control on expenditure resulting in reduction of expenses
- The turnaround strategy also involved reducing the non-performing Assets (NPA).
- Under the outline, the corporation had to set up an asset reconstruction department to manage the non-performing assets as well as add new business through securitization of NPAs from banks and other financial institutions.

5.2.5 Liquidity Test:

In order to test the liquidity of KSFC, two most popular ratios, viz., current ratio is worked out by dividing the current assets by current liabilities and quick ratio which is arrived at by dividing the quick assets by current liabilities are used. The quick assets are calculated by excluding inventory from the total current assets which is generally considered to be the most illiquid form of current assets but in case of KSFC there is no inventory and the current ratio is equal to quick ratio. The liquidity position of KSFC is as follows:-

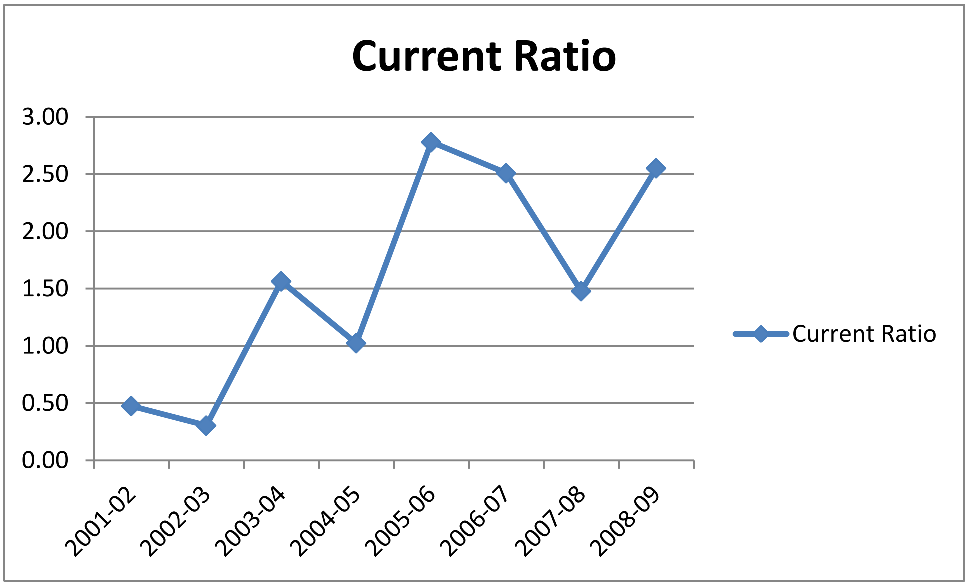
(In Lakhs)

Year	Current Assets	Current Liabilities	Liquid Assets
2001-02	24842.78	52322.95	24842.78
2002-03	16647.01	54908.97	16647.01
2003-04	17544.88	11219.28	17544.88
2004-05	19019.6	18577.85	19019.6
2005-06	34517.42	12417.4	34517.42
2006-07	19612.14	7816.77	19612.14
2007-08	27933.61	18900.97	27933.61
2008-09	23712.52	9292.14	23712.52

Current Ratio and Quick Ratio

Year	Current Ratio	Quick Ratio
2001-02	0.47	0.47
2002-03	0.30	0.30
2003-04	1.56	1.56
2004-05	1.02	1.02
2005-06	2.78	2.78
2006-07	2.51	2.51
2007-08	1.48	1.48
2008-09	2.55	2.55

GRAPH SHOWING LIQUIDITY RATIO OF KSFC



Interpretation:

The figure above indicates the liquidity position of Karnataka State Finance Corporation (KSFC). The ideal Current Ratio that we consider for this purpose is between 1.5-2.5 and the Liquidity Ratio as 1:1. The Current Ratio and Quick Ratio are the indicators as to how far the company can pay back its liabilities, i.e. current liabilities as required. Quick Ratio is a more rigorous test for testing liquidity. The current ratio during the financial year 2001-02,2003-04,2004-05 and 2007-08 was not good and in the financial year 2001-02 and 2002-03, it has fallen below the dangerous mark of 2:1 i.e. (0.47 and 0.30 respectively) indicating huge financial crisis in that particular year. But in 2003-2004, it improved to some extent then again it deteriorated in 2004-05 i.e. (1.02) but from 2005-2006 to 2008-2009 it improved and was in a good position.

5.2.6 Solvency Test:

The Z-Score values of KSFC are as follows:

(In Lakhs)

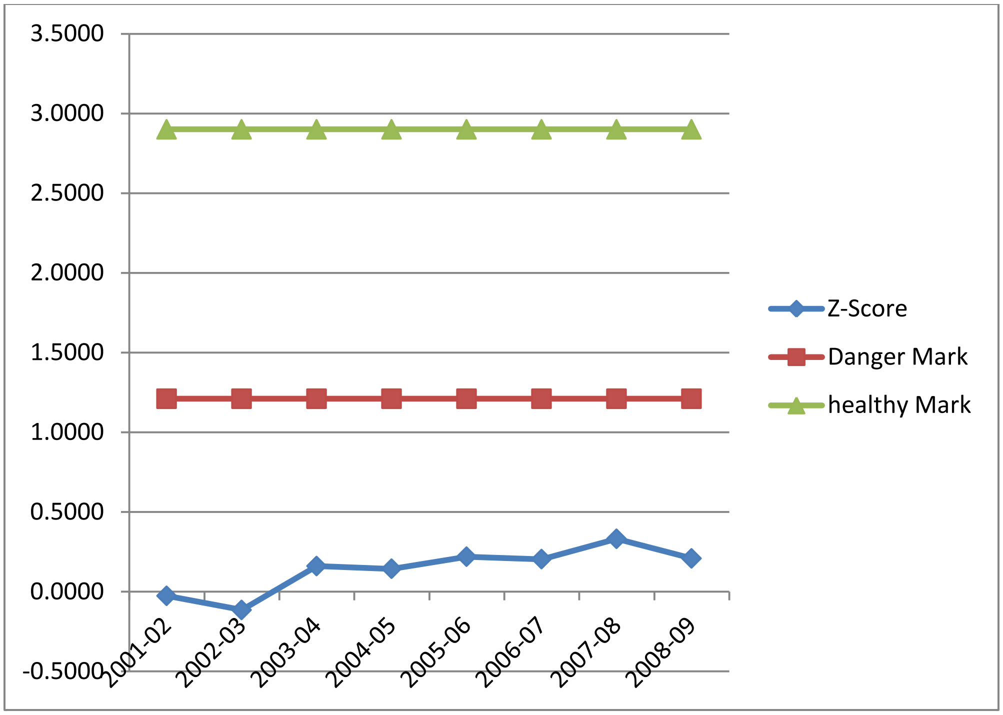
Details/Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Working Capital	-27480.17	-38261.96	6325.6	441.75	22100.02	11795.37	9032.64	14420.38
Total Assets	274635.72	265422.95	207522.31	201892.2	203036.48	186612.11	209069.08	230209.94
Retained Earnings	425	425	425	425	425	425	5640.69	5566.71
EBIT	-5465	-9297.79	-101.04	274.36	565.17	1339.56	6329.7	-3917.39
Equity	13385.24	13385.24	13385.24	13385.24	13385.24	13385.24	28385.24	53405.75
Total Libilities	274635.72	265422.95	207522.31	201892.2	203036.48	186612.11	209069.08	230209.94
Net Sales	23606.51	19938.66	23197.77	21990.94	21016.06	19571.4	26521.47	22777.64

Working Capital/ Total Assets	-0.1000	-0.1441	0.0304	0.0021	0.1088	0.0632	0.0432	0.0626
Retained Earnings/Total Assets	0.0015	0.0016	0.0020	0.0021	0.0020	0.0022	0.0269	0.0241
EBIT/Total Assets	-0.0198	-0.0350	-0.0004	0.0013	0.0027	0.0071	0.0302	-0.0170
Capital /Total Liabilities	0.0487	0.0504	0.0645	0.0662	0.0659	0.0717	0.1357	0.2319
Sales/Total Assets	0.0859	0.0751	0.1117	0.1089	0.1035	0.1048	0.1268	0.0989

Z-Score (arrived at using the weightage factors)

Details	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
X1	-0.0717	-0.1034	0.0219	0.0016	0.0780	0.0453	0.0310	0.0449
X2	0.0013	0.0014	0.0017	0.0018	0.0018	0.0019	0.0229	0.0205
X3	-0.0618	-0.1088	-0.0015	0.0042	0.0086	0.0223	0.0941	-0.0529
X4	0.0205	0.0212	0.0271	0.0278	0.0277	0.0301	0.0570	0.0974
X5	0.0858	0.0750	0.1116	0.1087	0.1033	0.1047	0.1266	0.0987
Z-Score	**-0.0260**	**-0.1147**	**0.1607**	**0.1441**	**0.2195**	**0.2043**	**0.3315**	**0.2087**

Solvency Test Using Z-Score Analysis



Interpretation:

The **Z-Score** started with -0.0260 in 2001-2002, much below the standard score of 1.21 (Danger Level) indicating the bankruptcy. From the above graph it is very clear that the financial position of KSFC is very bad. The Z score level of KSFC is below the danger mark which implies that there is a risk of bankruptcy. The company has to improve the Z-Score which indicates the liquidity and solvency. The Z score has slightly improved over the years but it was below the danger mark of 1.21.The improvement was due to various steps taken by the management to reduce NPA level and reduce cost.

5.2.7 Conclusion:

- KSFC, which was established in March 1959 under the State Financial Corporation Act 1951, had entered into a tripartite Memorandum of Understanding (MoU) with SIDBI and the State Government on October 31, 2003, for restructuring all its operations to make the undertaking economically viable. The MoU has helped KSFC reduce its accumulated losses and non-performance assets (NPAs).
- It was running under losses and was on the verge of closing down in 2002-2003 but due to turnaround in 2006 and diversification strategies it was able to regain its financial stability.
- The year 2007-08 was a challenging year for the Corporation in terms of resource mobilization and re-capitalization and the Corporation through its innovative strategies tackled these issues.
- KSFC came up with strategies to manage NPA's effectively, upgradation of IT infrastructure, credit risk analysis models, infrastructure development activities to combat the problems faced.
- Corporation had completed five golden decades, but still many challenges need to be met to make it financially sound and robust. The accumulated losses over the years had become daunting.
- To restructure its operations and expand lending to small and medium enterprises, the State Government has provided equity of Rs. 150 crores to KSFC, which was invested in Karnataka Neeravari Nigam Limited (KNNL).

Chapter 6
CONCLUSION & RECOMMEDITIONS

6 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion.

A number of sick companies have been successfully turned around. They have been brought back to life with the help of intelligently crafted strategies, dynamic leadership, expedient initiatives, and sustained efforts

While framing measures for revival of sick units, it is important to evolve measures for orderly revival of these sick units so that they can become productive again. Before considering various aspects of rehabilitation, it is important to assess whether a sick unit can attain viability in a reasonable time and put back in production. A viability study should therefore be undertaken. While potentially non viable units should be closed or merged and the affected people found suitable re-employment, only such companies which can be revived should be considered for further assistance, subsidies and rehabilitation.

Government is committed for a strong and effective Public Sector whose social objectives are met by its commercial functioning. While every effort is made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The private industry will be inducted to turnaround companies that have potential for revival.

Government has been extending need based budgetary support to the PSEs from time to time in the form of Plan as well as Non-Plan assistance, latter generally being for sick and loss making enterprises. For profit making PSEs the emphasis is on generation of more internal resources and lesser dependency on Government support. In line with the above policy, PSEs are enhancing their internal resources and only need based.

6.2 Recommendations to Government of Karnataka:

- 10% Disinvestment could be considered in Public Sector Enterprises which are not performing well.
- Formation of joint venture by induction of partners capable of providing technical, financial and marketing inputs;
- Autonomy should be given to Public Sector Enterprises in terms of decision making.
- Manning the right person to the right job should be taken seriously into consideration
- There should be time limit fixed for the top level management of Public Sector Enterprises. Frequent transfers should be avoided strictly
- Proper training should be given to employees of Public Sector Enterprises. Employees should be made aware about the objective of PSE and their role in developing PSE.
- Horizontal Decision making model could be applied in public sector enterprise.
- Privatization and autonomy should be given more importance in Public Sector Enterprises.
- To avoid sickness in PSE's, Evaluation of PSE should be done on regular basis and Government should take restructuring measures on time.

6.3 Recommendations to KSDL:

- KSDL is strong in southern states; northern states need to be targeted
- Marketing and Distribution network should be strengthen
- 20% Disinvestment could be considered as it will bring new capital for expansion and modernization of company.
- Foreign countries could be targeted
- Specialized store could be opened all over the country to target young customers
- KSDL should focus on increasing marketing and distribution network.
- Professional Management should be employed and proper training should be given to existing work force.

6.4 Recommendations to KSFC:

- To retain the present character of KSFC
- Continue to assist Small and Medium Enterprise (SME)
- To get concessional or zero rate funding to attain financial viability.
- Government of Karnataka should encourage restructuring of KSFC.
- Innovative products and schemes should be introduced to face competition from commercial banks
- Internal financing should be given priority, so in this connection Government of Karnataka should provide fund to meet long term liabilities of KSFC.
- Appropriate measures to be taken to reduce cost.
- Reduction of manpower by introducing Volunteer Retirement Scheme or redeployment
- Manning the right person for the right job should be taken seriously by the Management of KSFC

Chapter 7
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