

Industrial Sickness, Causes, Symptoms, Impact, Examples

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Industrial Sickness refers to a persistent condition of financial and operational weakness in industrial units, where revenues consistently fail to cover costs, forcing dependence on external finance for survival. It reflects deep structural inefficiencies such as outdated technology, weak management, poor financial planning, and adverse market conditions. In India, Industrial Sickness has been a recurring economic challenge affecting employment, industrial output, banking stability, and public finances. The phenomenon gained prominence with rising non-performing assets, closure of large public and private units, and repeated policy interventions aimed at revival, restructuring, or orderly exit of failing enterprises.

Industrial Sickness

Industrial Sickness describes the stage at which an industrial unit is unable to generate surplus from normal operations and continuously incurs losses, eroding its net worth. It typically arises when accumulated losses equal or exceed net worth, cash losses persist for successive years, and debt obligations remain unpaid despite formal demands. Such units function below the break-even point, depend heavily on borrowings, and lose internal capacity to sustain production, employment, and investment. In policy terms, Industrial Sickness signals both firm-level

failure and systemic stress within the broader industrial and financial ecosystem.

Industrial Sickness Features

Industrial Sickness exhibits identifiable characteristics that distinguish temporarily distressed firms from structurally unviable units, helping policymakers, banks, and regulators assess revival prospects.

- **Persistent Losses:** Continuous cash losses over multiple financial years without operational recovery.
- **Erosion of Net Worth:** Accumulated losses fully consuming paid-up capital and reserves.
- **Debt Default:** Failure to service principal or interest for three consecutive quarters.
- **External Dependence:** Heavy reliance on bank credit and government support for survival.
- **Low Capacity Utilisation:** Production operating significantly below installed capacity levels.
- **Technological Obsolescence:** Outdated machinery reducing productivity and competitiveness.
- **Liquidity Crunch:** Inability to meet working capital requirements for raw materials and wages.
- **Declining Market Share:** Loss of demand due to quality issues and stronger competitors.

Sick Company

A Sick Company represents the firm-level manifestation of Industrial Sickness, defined legally and economically to trigger corrective or exit mechanisms. A sick company is an industrial enterprise that has incurred cash losses for two consecutive financial years and whose accumulated losses equal or exceed its net worth after at least five years of registration.

- **Statutory Recognition:** Formally identified under special laws for rehabilitation or closure.
- **Operational Failure:** Inability to sustain routine production using internal resources.
- **Financial Insolvency:** Persistent mismatch between liabilities and realisable assets.
- **Credit Freeze:** Restricted access to fresh institutional finance due to high risk.
- **Employment Impact:** Wage arrears, layoffs, and erosion of worker morale.
- **Revival Uncertainty:** Limited turnaround potential without structural intervention.

Industrial Sickness Causes

Industrial Sickness arises from cumulative internal and external factors rather than a single trigger, making diagnosis and resolution complex. A combination of managerial inefficiency, financial mismanagement, market shocks, and policy constraints gradually weakens industrial units.

- **Poor Management:** Weak leadership, faulty decisions, and absence of long-term planning.
- **Inadequate Capital:** Insufficient working capital and overdependence on short-term loans.
- **Technological Lag:** Failure to modernise production processes and adopt innovations.
- **Cost Escalation:** Rising input costs without proportional increase in output prices.
- **Labour Issues:** Industrial disputes, absenteeism, and declining productivity levels.
- **Market Competition:** Pressure from domestic and global competitors reducing margins.
- **Policy Shocks:** Sudden regulatory, tax, or trade policy changes affecting viability.
- **Supply Disruptions:** Irregular raw material availability and power shortages.

Industrial Sickness Symptoms

Symptoms of Industrial Sickness provide early warning signals, enabling preventive or corrective action before irreversible decline. These indicators were later codified under special legislation to standardise identification.

- Continuous Losses: Recurrent operational losses across successive accounting periods.
- Net Worth Erosion: Reserves and capital fully wiped out by accumulated deficits.
- Payment Defaults: Delays in servicing loans, statutory dues, and supplier payments.
- Production Decline: Sustained fall in output volumes and capacity utilisation.
- Inventory Pile-Up: Unsold stock accumulation reflecting demand contraction.
- Credit Downgrades: Loss of lender confidence and withdrawal of banking facilities.

Industrial Sickness in India Examples

India's experience with Industrial Sickness spans public and private sectors, manufacturing and services, illustrating systemic vulnerabilities. Several high-profile cases highlight how structural inefficiencies and market changes lead to failure.

1. Hindustan Cables Limited: Obsolete technology and declining telecom demand led to closure in 2016.
2. HMT Limited: Inability to compete with private players caused chronic losses and unit shutdowns.
3. Scooters India Limited: Poor management and shrinking market resulted in recommended closure.
4. Kingfisher Airlines: Excessive debt, high fuel costs, and weak finances halted operations in 2012.
5. National Textile Corporation Units: Outdated machinery and rising costs caused mill-level sickness.

Industrial Sickness Impact

Industrial Sickness has wide-ranging economic and social consequences, extending beyond individual firms to the national economy. Persistent sickness distorts resource allocation, employment, and financial stability.

- Employment Loss: Job cuts and wage arrears affecting industrial labour households.
- Banking Stress: Rising non-performing assets burdening public sector banks.
- Output Decline: Reduced industrial production impacting **GDP** growth.
- Fiscal Pressure: Increased government spending on bailouts and subsidies.
- Regional Imbalance: Concentrated closures worsening backward area development gaps.
- Investor Confidence: Perception of industrial risk discouraging private investment.

Sick Industrial Companies Act 1985

The Sick Industrial Companies Act addressed Industrial Sickness through early detection, revival, or orderly exit of failing large firms. Enacted in 1985, it aimed to protect productive capacity and employment.

- Legal Framework: Special law focusing on industrial revival rather than liquidation.
- BIFR Creation: Board for Industrial and Financial Reconstruction assessed sickness cases.
- Revival Schemes: Structured plans involving banks, promoters, and government support.
- Exit Mechanism: Orderly closure where revival proved unviable.

- Process Delays: Lengthy procedures reduced effectiveness over time.
- Repeal Outcome: Replaced by Insolvency and Bankruptcy Code in 2016.

Industrial Sickness Legal Provisions

Industrial Sickness jurisprudence clarified the balance between creditor recovery and revival protection. Courts interpreted statutory safeguards to prevent misuse while ensuring fairness.

- Section 22 Protection: Temporary suspension of coercive recovery actions during revival.
- Limited Immunity: Protection not extended to actions not affecting revival schemes.
- Judicial Oversight: Courts ensured balance between creditor rights and rehabilitation.
- Precedent Value: Landmark judgments refined interpretation of statutory safeguards.

Industrial Sickness Remedies

Effective remedies for Industrial Sickness combine early detection, managerial reform, financial restructuring, and legal resolution.

Timely intervention reduces economic and social costs of prolonged sickness.

- Early Warning Systems: Regular financial monitoring to detect stress indicators early.
- Professional Management: Induction of skilled leadership to improve decision-making.
- Financial Restructuring: Loan rescheduling and interest relief for viable units.
- Technology Upgradation: Support for modern machinery and productivity enhancement.
- Infrastructure Support: Reliable power, transport, and logistics reducing costs.
- Orderly Exit: Swift closure under insolvency law when revival is impossible.
- Stakeholder Coordination: Banks, workers, government, and promoters acting jointly.

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