

CAPACITY UTILISATION AND CREDIT RATING MSMEs

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Introduction:

The MSME sector has already proved its mettle as a dominant player in most of the developed economies by giving a new dimension to their growth perspectives. It has helped in generation of large scale employment at lower capital cost, balanced regional development, generation of exportable surplus and in the establishment of a more flexible structure. Micro, Small and Medium Enterprises (MSME) are a key component in economic life, not only because of their number and variety but because of their involvement in every aspect of the economy, their contribution to regional development and the complementary role they play in support of the large sector. Small and medium enterprises could be termed as seed of industrial growth. Finance is a key input of production, distribution and development. It is therefor, describe as the “Life Blood” of industry. Role of finance has been viewed as a critical element in the development of Small and Medium Enterprises. During the pre-independence period, financial constraint had hindered the rapid growth of industries in the country. After independence, the government has built up a network of specialized financial institutions with a large capital base to provide financial assistance to all types of industries including MSMEs in India.

Credit ratings of MSME's

Financing has always been a major problem for the small and medium enterprises in India. MSMEs mainly depend on the internal source of finance but due to these financial problems MSMEs has been taken loans from the banks or financial institutions. Outstanding bank credit to Micro, Small and Medium Enterprises here below:

Table 1: Outstanding Bank Credit to MSMEs (Rs. Crores)

Last Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
2005	67,800	8,592	6,907	83,299
2006	82,434 (21.6)	10,421 (21.3)	8,430 (22.1)	1,01,285 (21.3)
2007	1,02,550 (24.4)	13,136 (26.1)	11,637 (38.0)	1,27,323 (25.7)
2008	1,51,137 (47.4)	46,912 (257.1)	15,489 (33.1)	2,13,538 (67.7)
2009	1,91,408 (26.6)	46,656 (-0.005)	18,063 (16.6)	2,56,127 (19.9)
2010	2,78,398 (45.4)	64,534 (38.3)	21,069 (16.6)	3,64,001 (42.1)
2011	3,76,625 (35.3)	87,857 (36.1)	21,535 (2.2)	4,86,017 (33.5)
2012	3,96,343 (5.2)	1,10,514 (25.8)	21,760 (1.1)	5,28,617 (8.8)
2013	5,02,459 (26.8)	1,54,732 (40.0)	30,020 (37.9)	6,87,211 (30.0)
2014	6,20,139 (23.4)	2,00,840 (29.8)	29,491 (-1.76)	8,50,470 (23.8)
2015	7,01,571 (13.1)	2,32,171 (15.6)	30,837 (4.6)	9,64,579 (13.4)
Sep.30, 2015	6,66,931 (-4.94)	2,45,660 (5.81)	24,729 (-19.8)	9,37,320 (-2.8)

(Source: Annual Report, 2015-16)

According to table 1 overall outstanding credit to MSMEs by all scheduled banks was INR 83,299 Crore in 2005 and INR 9,37,320 Crore in September, 2015. The overall percentage change in credits from 2005 to 2015 was 1025.24 per cent as MSMEs faces so many problems like high interest rate, lack of marketing facilities, lack of

adequate working capital and high level of competition. These are also the main causes behind the sickness of micro, small and medium enterprises in India.

Micro, Small and Medium Enterprises faces the many opportunities and challenges in India. Many opportunities have opened up for the small scale sector to enhance productivity and look for new markets in other countries. Therefore, there is a need to create awareness amongst Micro, Small and Medium Enterprises about the strengths and weaknesses of their operations. As a step in their direction, a need was felt for introduction a rating scheme for the Micro, Small and Medium Enterprises.

Credit rating has defined as a 'summary indicator' of the risk underlying in individual credit, being an assessment of the risk of loss due to the default of a counter party by considering relevant quantitative and qualitative information. Credit rating, through the use of symbols, can be defined as an expression of the opinion about credit quality of the issuer of securities with reference to a particular instrument. Rating is a measure of credit risk and is only one element in investment decision making (Gumparathi, 2011).

It is expected that rating would encourage MSMEs sector in improving its contribution by way of increasing their productivity. Credit rating scheme would enhance their acceptability in the market and make access to credit at cheaper cost. Ministry Of Micro, Small and Medium Enterprises has been launched a "Performance and Credit Rating Scheme" for MSMEs in consultation with various stakeholders i.e. Small Industries Association and various rating agencies- CRISIL, ICRA and ONICRA etc.

A good or high credit rating has a different positive effect on the MSMEs e.g. higher customer recognition, enhance credit limits, increased capacity utilisation, improvement in quality, easy documentation, increased foreign market exposure, helped in forming collaboration with international players and better rating helped the SMEs retain suppliers.

Rating helps the company to drive their business very sharply since the rating not only appraises the financial quality but also its performance. Some good effects of rating on SMEs are:

- (a) The rating scale places very important role in determine the quantum of loan to be provided to the company,

- (b) Very high rating for the company will have a benefit of interest rate reduction for the company and it may increase the company's profitability and sales,
- (c) High rated company means strong confidence in their entire operation and retention of employees are possible due to the strong image created by way of high rating,
- (d) High rating may attract lot of private equity or venture capital investor,
- (e) A regular renewal of ratings not only helps improve a firm's system and policies but also increases the debtors and government reliance
- (f) Rating opens doors to dealing with large corporate, especially those who deal with large number of vendors,
- (g) Rating serves as motivation to adopt good governance practices which are beneficial in the long run,
- (h) Rating aids in enhanced credibility of the enterprises,
- (i) It acts as self-correction and self-assessment tool,
- (j) Increases motivation amongst employees,
- (k) It enhances brand image (SMERA, 2011)

Analysis and conclusion:

This paper explained credit rating effect on the capacity utilization of MSME's. Respondents were asked to give their opinions about the effects of credit rating on their business. Responses were recorded using five point Likert scale from strongly agree to strongly disagree. The detailed analysis has been given below.

Research Question 1: Do the credit rating have capacity utilisation effects on the micro, small and medium enterprises?

Null Hypothesis: There is no significant effects of credit rating on the micro, small and medium enterprises on their capacity utilization.

Table 1: Credit Rating Dynamics

		N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
Credit Ratings	Micro	5	79.0000	13.91043	6.22093	64.00	91.00
	Small	67	74.7164	14.71116	1.79725	55.00	102.00
	Medium	57	78.8421	13.27294	1.75804	50.00	102.00
	Total	129	76.7054	14.10751	1.24210	50.00	102.00
F value = 1.394, p-value = 0.252							

Interpretation: It can be interpreted from table 1 that the highest mean value of credit rating effects is of Micro enterprises, followed by medium enterprises and lowest mean value of credit rating effects is of small enterprises. This shows that micro enterprises have strong opinion that credit rating has significant effects on their business operations. The results of ANOVA show that that the f-value is 1.394 which is insignificant at a p-value of 0.252. Thus, the null hypothesis which states that there is no significant difference in the effects of credit rating on the micro, small and medium enterprises tends to be accepted. Overall, it can be said that all the three types of enterprises admit the fact that their business operations get affected by the credit rating.

Table 2: Increased Capacity Utilization

		N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
Increased capacity utilization	Micro	5	1.80	.837	.374	1	3
	Small	67	2.19	.584	.071	1	3
	Medium	57	2.18	.539	.071	1	3
	Total	129	2.17	.575	.051	1	3
F value = 1.100, p-value = 0.336							

Interpretation: It can be interpreted from the table 2 that the mean value of Small enterprises is highest and mean value of Micro enterprises is lowest. It shows that all the three types of firms namely; small, medium and micro have an opinion that credit rating affect the capacity utilization and the firms with high credit rating can make higher utilization of their capacity in comparison to the firm with low credit ratings. The value of F is found to be 1.100, which is insignificant at a p-value of 0.336, thus the null hypothesis is accepted which states that there are no significant differences in the opinions of the micro, medium and small enterprises on the statement that firms' capacity utilization get enhanced due to high credit rating. Thus, it can be said that all the three types of firms have same opinions on the statement. Firms' with high credit rating easily recognized by the customers, get large number of customer queries and accordingly their capacity utilization get increased in order to fulfill the increased level of demand from customers.

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