

MSMEs credit rating and product quality

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Introduction:

Micro, Small and Medium Enterprises (MSMEs) contribute crucial role enhancing the development process of country. Micro, Small and Medium Enterprises have been accepted as the engine of economic growth and for promoting equitable development. The MSMEs constitute over 90 per cent of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. As per available statistics, this sector employs an estimated 31 million persons spread over 12.8 million enterprises and labour intensity in the MSMEs sector is estimated to be almost four times higher than the large enterprise. However, these industries face difficulty in accessing adequate finance for their businesses. Scarcity of finance is a major obstacle in the development of Micro, small and medium enterprises. The capital base of small entrepreneur is usually weak and often he has to procure credit at a high rate of interest. Securing bank credits, difficulties in documentations for bank loans and lack of collateral security are bigger problems in India. Large enterprises have access to various sources of finance; small sector depends primarily on finance from banks and other financial institutions. 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.

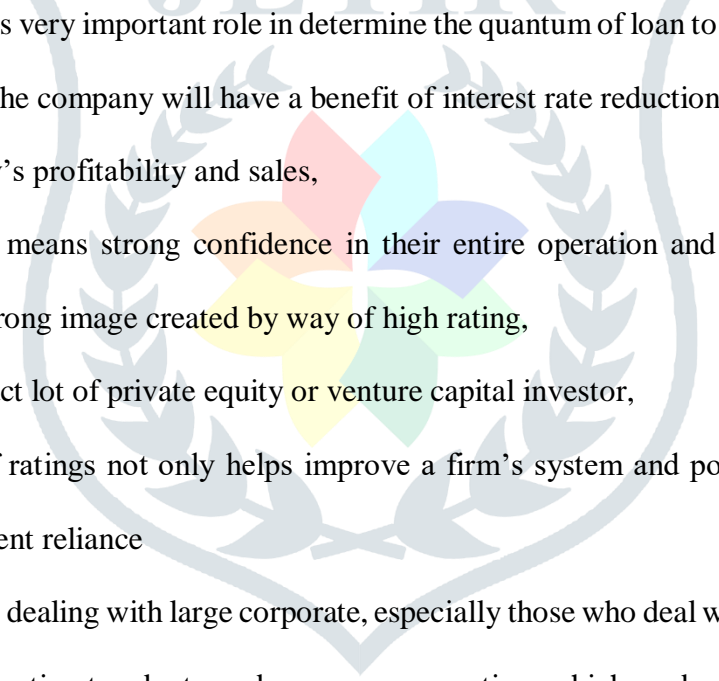
Credit rating has defined as a 'summary indicator' of the risk underlying in individual credit, being an assessment of the risk of loss due to the default of a counter party by considering relevant quantitative and qualitative information. Credit rating, through the use of symbols, can be defined as 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 (Gumparthy, 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:

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- The logo for JETIR (Journal of Emerging Technologies and Innovative Research) is a large, semi-transparent watermark in the center of the page. It features a shield-like shape with a laurel wreath border. Inside the shield, the word 'JETIR' is written in a large, serif font. Below the text is a colorful, multi-petaled flower or starburst design with petals in shades of red, orange, yellow, green, and blue.
- (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)

Review of literature

Brickwork (2015) conducted research to assess the strength and performance of MSMEs operating in India based on their credit rating. Researcher has done a comparative analysis of various MSMEs. Analysis was based on the primary and secondary data which has been presented with the help of graphs and tables. Researcher has also measured the impact of credit rating on the various performance parameters of the MSMEs. It was found from the analysis that credit rating helps in improving the performance and total productivity of MSMEs, helps in acquiring funds from both the unorganized sources of finance and the financial institutions. Credit rating helps in reducing the overall cost of capital as the funds are available at lower cost, and helps in developing a healthy competition environment. Credit rating also leads to attainment of profitable and sustainable position of the firm in long run of the business. Credit rating can be increased by improving the current technological standard of the firms and improving the quality of the services or goods.

Research gap

During the review of literature of studies conducted on the MSMEs operating in India or outside India, researcher has found some gaps and based on these gaps the objective of the study were framed. Current research is an attempt in this direction to bridge the gaps mentioned below.

- There are very few studies which have highlighted the importance of credit rating for the MSMEs and their product quality.

Objective of the research paper

- To examine the credit rating of the MSMEs sector and their product quality.

Hypothesis

Null Hypothesis: There is no significant difference in the effects of credit rating on the micro, small and medium enterprises product quality.

Data and Method:

In the present study researcher used both the descriptive research design and analytical research design. Current research is descriptive in nature, as researcher has no control over the financial problems, credit rating or the financing patterns of the small, micro and medium enterprises. Researcher will use the survey method to describe the various financial problems which are being faced by the small, micro and medium enterprises in Haryana state, financing patterns used by the small, micro and medium enterprises at different stages of the business and the credit rating dynamics of small, micro and medium enterprises. Thus, research is ex-post facto research. A description of

the particular situation or facts with the help of survey method has been done in the currents study. Researcher will use the analytical research design.

Analysis:

This paper deals with the analysis of credit rating dynamics. 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 different effects on the micro, small and medium enterprises?

Null Hypothesis: There is no significant difference in the effects of credit rating on the micro, small and medium enterprises and their product quality.

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 Improvements in Quality

		N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
Improvement quality	in Micro	5	3.20	1.095	.490	2	4
	Small	67	2.13	1.072	.131	1	4
	Medium	57	2.58	.885	.117	1	4
	Total	129	2.37	1.024	.090	1	4
F value = 4.886, p-value = 0.009							

Interpretation: It can be interpreted from the table 2 that the mean value of Micro enterprises is highest and mean value of Small 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 quality improvement and the firms with high credit rating produce high quality products in comparison to the firm with low credit ratings.

The value of F is found to be 4.886, which is significant at a p-value of 0.009, thus the null hypothesis is rejected which states that there are no significant differences in the opinions of the micro, medium and small enterprises on the statement that the quality of products get improved due to high credit rating. Thus, it can be said that all the three types of firms have different opinions on the statement that the credit rating of the firm have any impact on the quality of the products or companies with high credit rating try to improve their quality of products to manage their current reputation in the market.

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