

MSMEs exports growth and their respective credit rating

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Introduction:

Micro, Small and Medium Enterprises (MSMEs) play an important role in the development 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.

Review literature:

Sharma (2016) highlighted the major areas which need to be worked upon for improving the performance of MSMEs operating in India. Researcher has also revealed the future prospects of the MSMEs. The study was completely based on secondary data related to various performance parameters of the MSMEs. Data has been collected from annual reports of the MSMEs sector, various websites connected with MSMEs, research papers and articles. It was stated by the researcher that MSMEs of India has a bright future, as they are continuously improving their performance in terms of growth, profit, total production and the total investment. It was found that there is a significant contribution of the MSMEs towards the total industrial

production of India, total employment in the country and value of exports. Besides all these contributions, there are various problems or hurdles which are hindering the growth of the MSMEs in India. These barriers are mainly related to the marketing, insufficient financial sources, unavailability of latest technology, or updated equipment and the most important is the lack of qualified and skilled man power in the sector.

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 objectives of the study is framed. Current research is an attempt in this direction to bridge the gap mentioned below.

1. There are very few studies which have highlighted the importance of credit rating for the MSMEs.

Objective of the paper:

Current research aims to achieve the following objective:

- To examine the MSMEs sector export growth and credit rating

Hypothesis:

Null Hypothesis: There is no significant effects MSME's export growth and their respective credit rating.

Methodology:

In the current study researcher will use 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, 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 current study. Researcher will use the analytical research design. Analytical research is that where the researcher makes use of secondary data or facts to make some critical analysis. In current research, researcher will use the data related to the growth of MSMEs, employment and the growth of the economy, to measure the impact of growth of MSMEs on the GDP, Fixed investment, and Employment generation. Thus, researcher will use already available information or secondary data such as; number of MSMEs in the country for last ten years, GDP of the country for last ten years, amount of fixed investments and the total number of employed population in the country.

Analysis of the problem:

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: Do the credit rating have different effects on the micro, small and medium enterprises export growth?

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

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 Export

		N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
Increased export	Micro	5	2.60	.548	.245	2	3
	Small	67	3.33	.660	.081	2	4
	Medium	57	3.26	.768	.102	2	4
	Total	129	3.27	.715	.063	2	4
F value = 2.474, p-value = 0.088							

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 their export volume and the firms with high credit rating have higher export value in comparison to the firm with low credit ratings.

The value of F is found to be 2.474, which is insignificant at a p-value of 0.088, 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 export of the firms may get increase due to high credit rating. Thus, it can be said that credit rating of the firms affects the export volume no matter it is a small, micro or medium enterprises. High credit rating of the firms leads to high value of export.

References:

1. Brickworks, R. (2015). BWR handbook MSMEs in India. 1-32.
2. Govt. of India, Ministry of Micro, Small and Medium Enterprises, Annual Report, 2015-16.