

MSMEs CREDIT LIMIT AND RATING

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Introduction:

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. MSMEs owners financing preference depends on the level of education as educated owners are in a better position to understand the link between finance and firm value. Owners with higher educational background have higher probability for choosing external sources of fund mainly debt with the intention of optimizing firm value (Geburu, 2009). Family and close associate networks are very important for the support of SMEs owners/managers and they required loans from banks and other financial institutions, both at the start-up stage and in subsequent years (Hussain and Matlay, 2007). Small scale sector in India is heterogeneous and unorganized. It includes diverse types of production units ranging from traditional crafts to high-tech industries. Due to the unorganized nature of the sector, entrepreneurs and workers face difficulties in assessing government schemes and finance. Those workers engaged in the small sector are often poor and have very little bargaining power.

MSMEs are considered as a priority sector in our country, but they continue to face problems related to finance for the expansion and development of enterprises (Chaudhary and Ahalawat, 2014). Financial problems faced by the MSMEs could be divided into three broad categories-financial problems, operational and administrative problems, and sales and debtor’s problems (Naidu and Chand, 2012). 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.

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.

Credit rating improve the performance and productivity of small and medium enterprises, access of funds quickly and cheaply, improve and sustain competitiveness and making available wider choice by initiating various measures including innovation and up-gradation of technology in India (Brickwork, 2015).

The rating process will be undertaken in the following manner:

- (a) Request for rating from MSMEs units,
- (b) Collection of information from the MSMEs units,
- (c) Onsite meeting with MSMEs management,
- (d) Analysis of information obtained from the MSMEs units,
- (e) Assign credit rating and communicate it to the MSMEs units. (National Institute of Securities Market, 2009).

Some of the rating agencies who have been approved for Small and Medium Enterprises are:

- (1) SMERA- Small and Medium Enterprises Rating Agency,
- (2) CRISIL- Credit Rating Information Services of India Limited,
- (3) ICRA- Investment Information Credit Rating Agency,
- (4) CARE- Credit Analysis and Research,
- (5) ONICRA- Onida Individual Credit Rating Agency.

Rating Scale of MSMEs –

(A) SME rating consists of two parts, a composite indicator and size indicator. Normally, rating agency has got the indicator of scale 1 to scale 8, which carries its own weight. The medium enterprises rating scale is specified below:

Rating	Rating Appraisal Indicator
SME 1	Highest
SME 2	High
SME 3	Above Average
SME 4	Average
SME 5	Below Average
SME 6	Inadequate
SME 7	Low
SME 8	Lowest

(Subramanian and Nehru, 2012)

(B) Rates separately on the basis of performance capability (scale “1” to “5”) and financial strength (scale “A” to “C”) for small scale enterprises.

Rating Scale	Performance and Credit Parameters
SE 1A	Highest Performance Capability and High Financial Strength
SE 1B	Highest Performance Capability and Moderate Financial Strength
SE 1C	Highest Performance Capability and Low Financial Strength
SE 2A	High Performance Capability and High Financial Strength
SE 2B	High Performance Capability and Moderate Financial Strength
SE 2C	High Performance Capability and Low Financial Strength
SE 3A	Moderate Performance Capability and High Financial Strength

SE 3B	Moderate Performance Capability and Moderate Financial Strength
SE 3C	Moderate Performance Capability and Low Financial Strength
SE 4A	Weak Performance Capability and High Financial Strength
SE 4B	Weak Performance Capability and Moderate Financial Strength
SE 4C	Weak Performance Capability and Low Financial Strength
SE 5A	Poor Performance Capability and High Financial Strength
SE 5B	Poor Performance Capability and Moderate Financial Strength
SE 5C	Poor Performance Capability and Low Financial Strength

(Source: www.icra.com)

Rating of MSMEs has become very important and the amount of the credit that SMEs will receive from banks will be determined according to the credit rating they have been assigned. SMEs that have a high credit rate will be accepted as risk-free, thereby decreasing borrowing costs. Rating of SMEs affects the credit price and the amount of capital that the bank should allocate. The credit price and the capital that the bank should allocate are decreasing as much as the rating degree increases (Aslan and Elci, 2009).

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.

Objective of the current paper:

- To examine the credit limit and credit rating of MSMEs sector

Hypothesis:

Null Hypothesis: There is no significant relationship between credit limit and credit rating of MSMEs

Data analysis:

Present paper deals with the analysis of credit rating and credit limit of MSME's in India. 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 having relation with credit limit of the micro, small and medium enterprises?

Null Hypothesis: There is no significant relation with credit limit and credit rating of the micro, small and medium enterprises.

Table 2: 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 2 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 3: Enhance Credit Limits

		N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
Enhance credit limits	Micro	5	2.60	.894	.400	1	3
	Small	67	2.85	.973	.119	2	5
	Medium	57	3.14	.854	.113	2	5
	Total	129	2.97	.927	.082	1	5
F value = 1.945, p-value = 0.147							

Interpretation: It can be interpreted from the table 3 that the mean value of Medium 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 credit limits and the firms with high credit rating can easily get the credit from the market in comparison to the firm with low credit ratings.

The value of F is found to be 1.945, which is insignificant at a p-value of 0.147, 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' credit limit 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 that firms' credit limit get enhanced due to high credit rating. Firms with high credit rating can easily get the credit or loans and credit rating shows that the firm is enable to pay off its debts on time.

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