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EVALUATION OF AWARENESS LEVEL OF CREDIT RATING MECHANISM OF SMEs IN KARNATAKA

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ABSTRACT
The credit rating mechanism is crucial for SMEs in Karnataka as it enables them to access affordable financing, enhance credibility with lenders, and facilitate business growth and expansion. By providing an objective assessment of creditworthiness, it empowers SMEs to make informed financial decisions and navigate the competitive business landscape effectively. Overall, the implementation of credit rating mechanisms strengthens the financial ecosystem, fostering the sustainable development of SMEs in Karnataka. This study adopts a cross-sectional research design to assess the awareness level of SMEs in Karnataka regarding the credit rating mechanism. Both primary and secondary data sources will be utilized to achieve the research objectives. Secondary data will be collected from the UDYAM registration portal to gather information on the definition and registration of SMEs in Karnataka. This data will provide a comprehensive understanding of the SME landscape in the region. Primary data will be collected through a structured questionnaire administered to 152 respondents from Bengaluru Urban. The questionnaire will be designed to assess the awareness level of SMEs regarding the credit rating system. The study will utilize convenience sampling to select SMEs located in Bengaluru Urban. This sampling method is chosen for its practicality and accessibility in obtaining the required sample size. Descriptive statistics will be employed to summarize the characteristics of the sample, including demographics and awareness levels. The awareness levels of SMEs across different geographical regions and nature of business categories will be analysed using analysis of variance (ANOVA) to determine if there are significant differences.

Key Words: ***SMEs,*** *Credit Rating, Awareness*

INTRODUCTION:

In the landscape of financial transactions, credit ratings play a pivotal role in mitigating information disparities, particularly for Small and Medium Enterprises (SMEs). These ratings furnish comprehensive insights into an enterprise's operations, highlighting its strengths and the associated risks. Financial institutions heavily rely on these credit reports as vital references, streamlining their appraisal processes and

expediting loan approvals for MSMEs. This, in turn, significantly reduces the turnaround time for loan requests.

Furthermore, external credit ratings, aligned with RBI guidelines such as Basel II, aid financial institutions in determining risk weights for their exposures. Notably, if a borrower receives a rating within the top three ranks (AAA, AA, or A) from SEBI-registered rating agencies, the assigned risk weights are 20%, 30%, and 50%, respectively. Lower risk weights translate to reduced capital requirements for banks, potentially leading to lowered interest rates for borrowers. Interviews conducted with representatives from rating agencies and SMEs reveal that credit ratings within these top ranks can yield interest rate reductions ranging from 25 to 75 basis points.

Beyond facilitating smoother loan processes and favorable interest rates, credit ratings also empower SMEs in negotiations with financial institutions and suppliers alike. By sharing independent third-party reports with suppliers, MSMEs can bolster their credibility and negotiating leverage. Additionally, publishing these ratings on their websites and bulletins enhances visibility and fosters trust, paving the way for increased recognition and opportunities for SMEs.

Literature Review

Facundo Abraham and Sergio L. Schmukler delve into the challenges faced by small and medium enterprises (SMEs) in accessing financing, both in developing and developed countries. They highlight the common financial obstacles encountered by SMEs across these diverse economic landscapes. According to a World Bank report, SMEs are markedly less likely to secure formal bank loans or other forms of credit compared to larger firms. The International Finance Corporation (IFC) identifies a significant disparity between the supply and demand of financing for SMEs, posing two critical questions: why SMEs experience greater financial constraints than larger enterprises, and what feasible and innovative solutions exist to enhance SMEs' access to finance. The authors identify several hurdles obstructing SME finance, including the opacity of financial information and the macroeconomic environment.

Aswar(2016) In his article discussed the challenges and prospects of credit rating for small and medium enterprises (SMEs) in Bangladesh. The main focus is on the role of credit rating agencies in assessing the creditworthiness of SMEs and the impact of different payment models on the rating process. underscores the importance of addressing challenges such as information asymmetry, payment models, competition, and regulatory oversight to improve credit rating practices for SMEs in Bangladesh.

Ashwini and Krishnamrthy(2018) Emphasize the significance of Credit Rating for SMEs in India, discussing its role in facilitating access to finance from banks and financial institutions. It highlights the challenges faced by SMEs in obtaining credit, such as lack of knowledge about government schemes and difficulty in convincing lenders of their credit-worthiness. The 'Make in India' initiative aims to prioritize lending to SMEs, provided they can demonstrate their ability to repay borrowed funds. Credit Rating is presented as a solution, offering an independent evaluation of an entity's financial position and qualitative parameters affecting credit-worthiness. By obtaining a good credit rating, SMEs can enhance their credibility, making it easier to secure financing. The article also touches upon the declining share of MSMEs in GDP and exports, underscoring the need for initiatives like Credit Rating to support SME growth.

Kundid and Ercegovac (2011) Focused on credit rationing in the corporate bank loan market, Discussing on small to medium-sized enterprises (SMEs) in Croatia. It presents empirical analysis and findings that show SMEs face higher borrowing costs compared to large enterprises, especially during financial crises. The study highlights factors such as enterprise size, collateral, and internal credit ratings that influence borrowing costs. Recommendations are made for more efficient support strategies for SMEs, emphasizing the importance of inclusive bank finance. The paper aims to enhance understanding of SMEs' role in economic growth and provides insights for policymakers, prudential authorities, and economics students. The research suggests that

including borrowing costs in credit rationing analysis can be valuable for future studies. The study was presented at a conference in Greece and won the Best Paper Award from the International Journal of Law and Management.

Objectives:

1. To Assess the Awareness level of SMEs in Bengaluru District regarding the significance and benefits of credit rating for their businesses.
2. To compare the awareness levels of the credit rating mechanism among SMEs across different types of businesses and geographical regions.

Hypotheses:

1. **(H0)**: There is no significant difference in the awareness levels of the credit rating mechanism among SMEs across different types of businesses and geographical regions.
   (H1): There is a significant difference in the awareness levels of the credit rating mechanism among SMEs across different types of businesses and geographical regions.

MEANING AND DEFINITION:

The Micro, Small, and Medium Enterprises (MSME) sector stands as a crucial pillar of the Indian economy, significantly driving its growth. With an extensive network comprising approximately 30 million units, this sector plays a pivotal role by generating employment for around 70 million individuals. It manufactures over 6000 diverse products, contributing approximately 45% to the manufacturing output and about 40% to exports, both directly and indirectly. Recognizing the longstanding demand from this sector, the Government of India took a significant step by redefining the classification of MSMEs effective from July 1, 2020.:

New MSME Classification w.e.f 1st July, 2020			
Composite Criteria of Investment in Plant & Machinery or Equipment and Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment does not exceed Rs 1 Cr. and Turnover does not exceed Rs 5 Cr. **(≤ 1 Cr)**	Investment does not exceed Rs 10 Cr. and Turnover does not exceed Rs 50 Cr. **(≥ 1 Cr ≤ 10 Cr)**	Investment does not exceed Rs 50 Cr. and Turnover does not exceed Rs 250 Cr. **(≥ 50 Cr)**

Source: ministry of MSME

i. A combined criterion based on investment in Plant & Machinery or Equipment and Turnover, as outlined in the matrix provided, will be used to classify an enterprise as micro, small, or medium.

ii. These criteria are applicable to enterprises operating in both the manufacturing and services sectors.

iii. If an enterprise surpasses the prescribed ceiling limits for its current category in either the investment or turnover criteria, it will be upgraded to the next higher category. However, no enterprise will be downgraded to a lower category unless it falls below the ceiling limits specified for its current category in both the investment and turnover criteria.

iv. All units holding a Goods and Services Tax Identification Number (GSTIN) linked to the same Permanent Account Number (PAN) will be collectively considered as a single enterprise. The turnover and investment

figures for all such entities will be consolidated, and only the aggregated values will be taken into account for determining the enterprise's classification as micro, small, or medium.

Distribution of MSME's (in lakhs)

Table:1

Sector	Micro	Small	Medium	Total MSMEs
Total	592.77	36.61	4.48	633.86
	(93%)	(6%)	(1%)	(100)

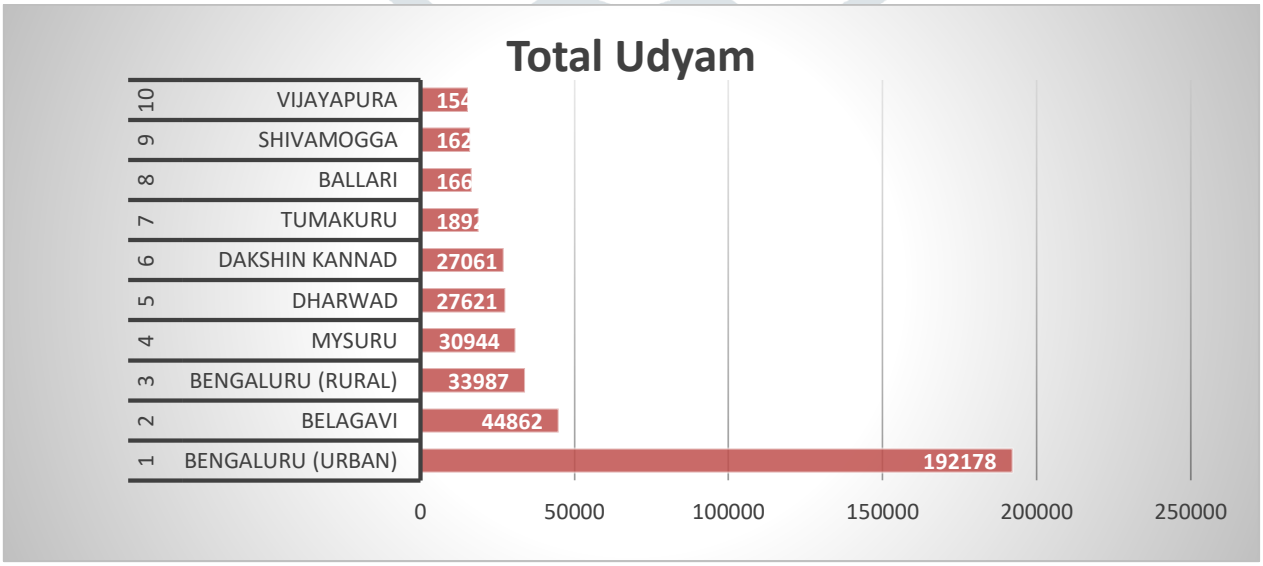
Source: ministry of MSME

Table no: 2

The table presents information on the aggregate count of Udyam (MSME) establishments across different districts of Karnataka, categorized into Micro, Small, and Medium enterprises.

S. No.	District Name	Total Udyam	Micro	Small	Medium
1	BENGALURU (URBAN)	192178	179801	11063	1314
2	BELAGAVI	44862	43845	949	68
3	BENGALURU (RURAL)	33987	32561	1285	141
4	MYSURU	30944	29781	1078	85
5	DHARWAD	27621	26652	881	88
6	DAKSHIN KANNAD	27061	25950	1022	89
7	TUMAKURU	18924	18168	706	50
8	BALLARI	16697	15758	855	84
9	SHIVAMOGGA	16227	15669	526	32
10	VIJAYAPURA	15476	14987	455	34

Source: Udyam Adhar Registration portal As on 30th Dec 2023



In Bengaluru (Urban), the data shows a substantial presence of Udyam (MSME) establishments, with a total of 192,178. The majority of these are Micro enterprises (179,801), indicating a prevalence of small-scale businesses. Small enterprises constitute a significant portion as well (11,063), followed by a smaller number of Medium enterprises (1,314). This distribution underscores the diverse entrepreneurial landscape in Bengaluru, with a strong representation of small businesses driving economic activity and employment opportunities.

Research Methodology

This study adopts a cross-sectional research design to assess the awareness level of SMEs in Karnataka regarding the credit rating mechanism. Both primary and secondary data sources will be utilized to achieve the research objectives. Secondary data will be collected from the UDYAM registration portal to gather information on the definition and registration of SMEs in Karnataka. This data will provide a comprehensive understanding of the SME landscape in the region. Primary data will be collected through a structured questionnaire administered to 152 respondents from Bengaluru Urban. The questionnaire will be designed to assess the awareness level of SMEs regarding the credit rating system. The study will utilize convenience sampling to select SMEs located in Bengaluru Urban. This sampling method is chosen for its practicality and accessibility in obtaining the required sample size. Descriptive statistics will be employed to summarize the characteristics of the sample, including demographics and awareness levels. The awareness levels of SMEs across different geographical regions and nature of business categories will be analysed using analysis of variance (ANOVA) to determine if there are significant differences. The Tukey test will be conducted as a post-hoc test to identify specific pairwise differences. Possible limitations of the study include sample representativeness, respondent bias, and external factors influencing awareness levels, which will be addressed and acknowledged in the research findings. The scope of the study is limited to SMEs in Bengaluru Urban, focusing on their awareness of the credit rating mechanism. The study does not extend to other regions or aspects of SME financing.

Table:3

This data presents the frequency and percentage distribution of SMEs based on their geographical area within Karnataka, specifically focusing on Bengaluru Urban, in the evaluation of the awareness level of the credit rating mechanism.

Geo graphical area			
		Frequency	Percent
Valid	Commercial Hubs	36	23.7
	Technoogy Park and IT Corridors	25	16.4
	Industrial Zone	91	59.9
	Total	152	100

Fig:1

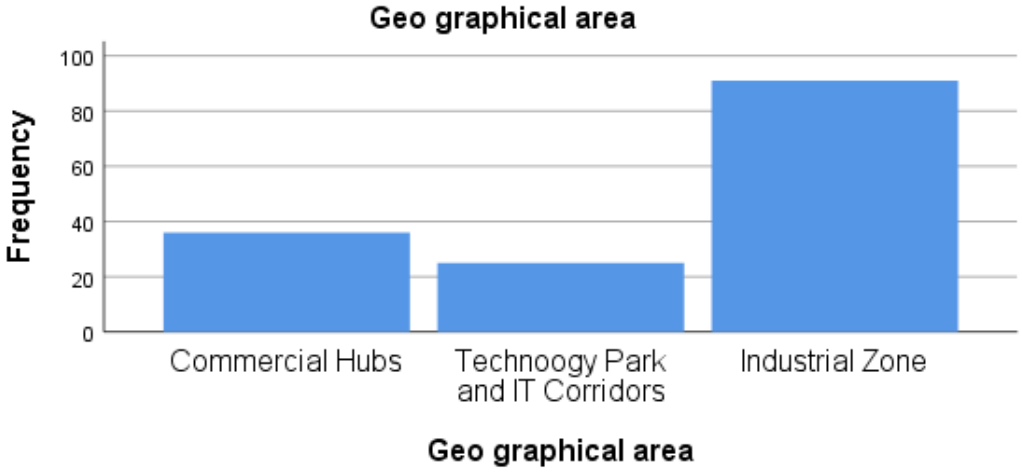


Table: 4

This output seems to represent an analysis of variance (ANOVA) followed by a Tukey Honestly Significant Difference (HSD) test, examining the awareness level of SMEs regarding the credit rating mechanism for their businesses across different geographical regions in Karnataka, with a focus on Bengaluru Urban

ANOVA

Awareness level of SMEs of credit rating for their businesses.

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.245	2	1.123	1.679	.190
Within Groups	99.623	149	.669		
Total	101.868	151			

Awareness level of SMEs of credit rating for their businesses.

Tukey HSD[a,b]

Geo graphical area	N	Subset for alpha = 0.05 1
Industrial Zone	91	1.7912
Technoogy Park and IT Corridors	25	1.9200
Commercial Hubs	36	2.0833
Sig.		.267

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 38.087.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

This output seems to represent an analysis of variance (ANOVA) followed by a Tukey Honestly Significant Difference (HSD) test, examining the awareness level of SMEs regarding the credit rating mechanism for their businesses across different geographical regions in Karnataka, with a focus on Bengaluru Urban. The p-value associated with the F-value, indicating whether the observed F-value is statistically significant. The p-value (Sig.) is greater than 0.05 ($p = 0.190$), suggesting that there is no statistically significant difference in awareness levels across different geographical regions.in Tukey HSD Results In this case, the p-values for all comparisons are greater than 0.05, indicating no significant difference in awareness levels between Industrial Zone and Technology Park and IT Corridors ($p = 0.267$), Industrial Zone and Commercial Hubs ($p > 0.05$), and Technology Park and IT Corridors and Commercial Hubs ($p > 0.05$).Overall, both the ANOVA and Tukey HSD test results suggest that there is no significant difference in the awareness levels of SMEs regarding the credit rating mechanism for their businesses across different geographical regions in Karnataka, with a focus on Bengaluru Urban.

Table:5

This data provides the frequency and percentage distribution of SMEs based on their types of Buasiness in the evaluation of the awareness level of the credit rating mechanism, specifically within Karnataka, focusing on Bengaluru Urban.

Type of Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	manufacturing	65	42.8	42.8	42.8
	services	59	38.8	38.8	81.6
	trading	28	18.4	18.4	100.0
	Total	152	100.0	100.0	

Fig:2

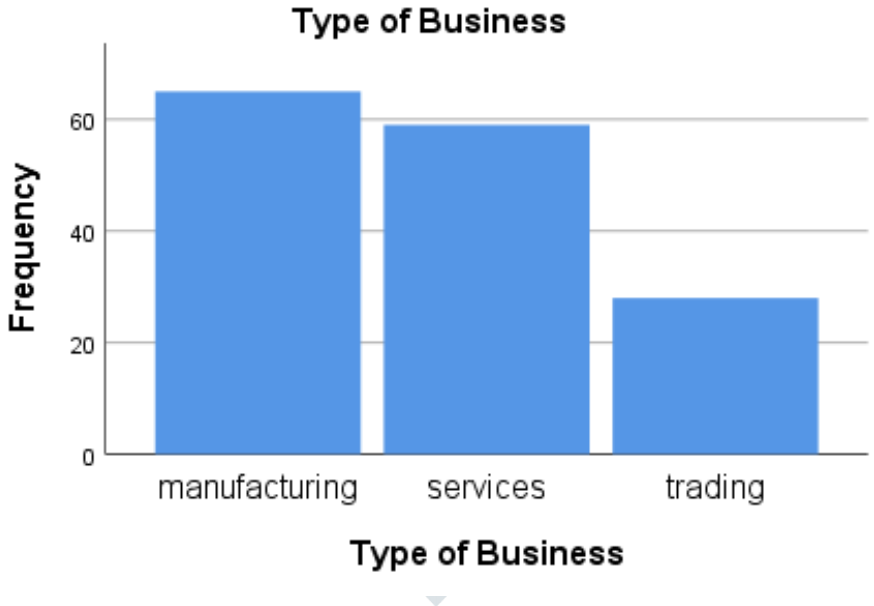


Table:6

This Data appears to be from an analysis of variance (ANOVA) test followed by a Tukey Honestly Significant Difference (HSD) test, assessing the awareness level of SMEs regarding credit rating for their businesses across different nature of business categories in Karnataka, specifically focusing on Bengaluru Urban.

ANOVA

Awareness level of SMEs of credit rating for their businesses.

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	10.604	2	5.302	8.656	.000
Within Groups	91.265	149	.613		
Total	101.868	151			

Awareness level of SMEs of credit rating for their businesses.

Tukey HSD[a,b]

Nature of Business	N	Subset for alpha = 0.05	
		1	2
trading	28	1.3571	
services	59		1.8983
manufacturing	65		2.0923
Sig.		1.000	.477

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 44.086.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

This output appears to be from an analysis of variance (ANOVA) test followed by a Tukey Honestly Significant Difference (HSD) test, assessing the awareness level of SMEs regarding credit rating for their businesses across different nature of business categories in Karnataka, specifically focusing on Bengaluru Urban. The p-value associated with the F-value, which indicates whether the observed F-value is statistically significant. The p-value (Sig.) is less than 0.05, indicating that there is a statistically significant difference in awareness levels across different nature of business categories. The output shows the mean awareness levels for each group and whether there is a statistically significant difference between them. In this case, there is no significant difference in awareness levels between trading and services (p = 1.000), trading and manufacturing (p = 1.000), and services and manufacturing (p = 0.477). the analysis indicates that there is a significant difference in awareness levels of SMEs regarding credit rating for their businesses across different nature of business categories. However, the Tukey HSD test suggests that there are no significant differences between specific pairs of nature of business categories in terms of awareness levels.

Represent an analysis of variance (ANOVA) examining the awareness level of SMEs regarding the credit rating mechanism for their businesses across different geographical regions in Karnataka, with a focus on Bengaluru Urban.

Table:7

This data appears to be a cross-tabulation or contingency table showing the count of SMEs categorized by their type of enterprise (small or medium) and their awareness levels of the credit rating mechanism (low, moderate, or high). The interpretation would involve analysing the distribution of awareness levels across different types of enterprises.

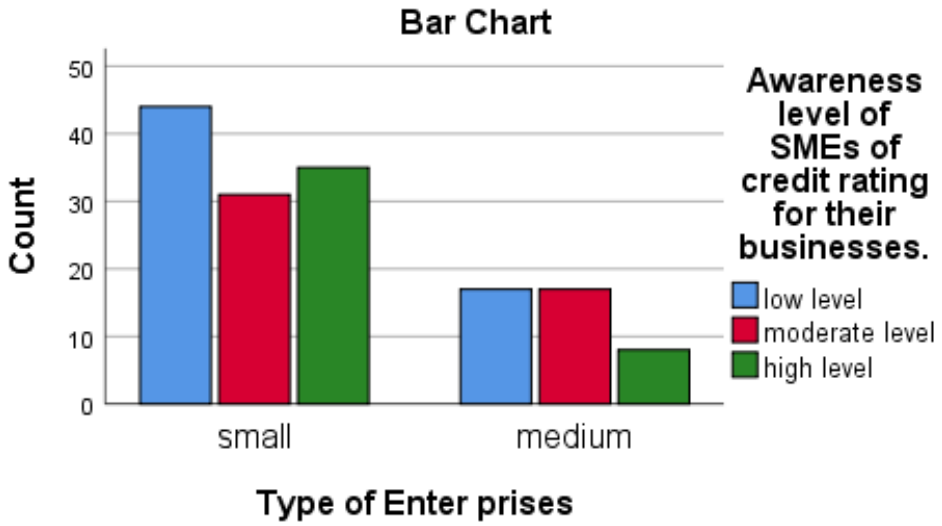
Type of Enter prises * Awareness level of SMEs of credit rating for their businesses. Crosstabulation

Count

		Awareness level of SMEs of credit rating for their businesses.			
		low level	moderate level	high level	Total
Type of Enter prises	small	44	31	35	110
	medium	15	17	10	42
Total		59	48	43	152

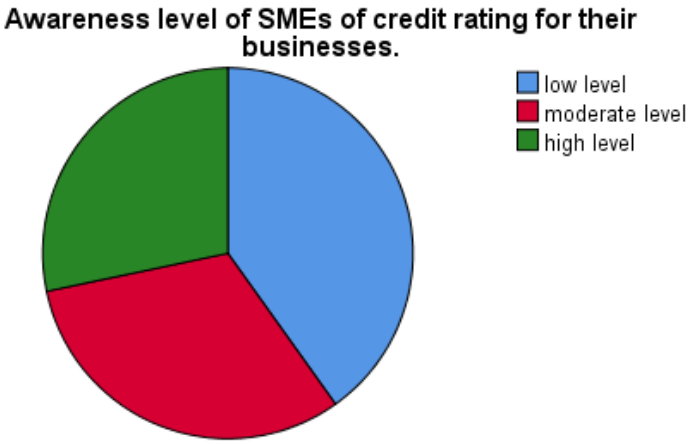
Awareness level of SMEs of credit rating for their businesses.			
		Frequency	Percent
Valid	low level	61	40.1
	moderate level	48	31.6
	high level	43	28.3
	Total	152	100.0

Fig:3



Among small enterprises, the highest count of SMEs falls under the "low level" awareness category, followed by "moderate level" and then "high level. “Similarly, among medium enterprises, the highest count of SMEs falls under the "low level" awareness category, followed by "moderate level" and then "high level."This suggests that regardless of the size of the enterprise, a substantial portion of SMEs have a low level of awareness regarding the credit rating mechanism.

Fig:4



Findings;

1. The majority of SMEs (59.9%) are located in the Industrial Zone, indicating that this area has the highest concentration of SMEs participating in the evaluation. Commercial Hubs represent 23.7% of the SMEs, while

Technology Park and IT Corridors represent 16.4%. This distribution suggests that the study has a significant representation from the Industrial Zone, followed by Commercial Hubs and Technology Park and IT Corridors.

2. The majority of SMEs in the study are from the manufacturing sector, representing 42.8% of the total. Following manufacturing, the services sector has a significant representation, accounting for 38.8% of the SMEs.The trading sector has the lowest representation among the three industries, with 18.4% of the SMEs.This distribution indicates that the study has a diverse representation of SMEs across different sectors, with manufacturing and services being the predominant ones.
3. Based on Awareness Level Geographical region and Enterprises both the ANOVA and Tukey HSD test results suggest that there is no significant difference in the awareness levels of SMEs regarding the credit rating mechanism for their businesses across different geographical regions in Karnataka, with a focus on Bengaluru Urban.
4. Based on the analysis indicates that there is a significant difference in awareness levels of SMEs regarding credit rating for their businesses across different nature of business categories. However, the Tukey HSD test suggests that there are no significant differences between specific pairs of nature of business categories in terms of awareness levels.

Suggestions:

1. While the Industrial Zone has a predominant representation in the study, efforts should be made to increase participation from Commercial Hubs and Technology Parks. Conducting targeted awareness campaigns in these areas could help in reaching out to SMEs and educating them about the importance of credit rating.
2. Given the diverse representation of SMEs across manufacturing, services, and trading sectors, it's essential to tailor awareness initiatives to the specific needs of each sector. This could involve sector-specific workshops, webinars, or training programs to enhance understanding and adoption of credit rating practices.
3. Although the study found no significant difference in awareness levels across different geographical regions within study, it's crucial to maintain consistent awareness efforts across all areas. Continued educational programs and outreach activities can ensure that SMEs in all regions have access to information about credit rating mechanisms.
4. While there's a significant difference in awareness levels across different nature of business categories, the absence of significant differences between specific pairs suggests that educational efforts should focus on common challenges faced by SMEs across various industries. Tailoring educational content to address these common challenges can help in improving awareness levels uniformly across all nature of business categories.

Conclusion

The evaluation of SMEs' awareness levels regarding the credit rating mechanism in Karnataka, with a focus on Bengaluru Urban, underscores the need for targeted awareness campaigns and sector-specific education initiatives. While the study revealed a diverse representation of SMEs across sectors and geographical regions, there remains room for improvement in increasing awareness levels uniformly across all segments. By implementing tailored awareness programs and maintaining consistent outreach efforts, stakeholders can effectively enhance SMEs' understanding and adoption of credit rating practices, thereby contributing to their overall growth and sustainability in Karnataka's economic landscape.

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