

Credit Rating for Small Scale Industries in India (With special reference to NSIC)

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Abstract

Recognizing the importance of MSME sector in India, Government has done great efforts to strengthen and facilitate this sector. The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. Besides it Government has introduced a Performance and Credit Rating scheme for SSI in India. National Small Industries Corporation (NSIC) has been made the nodal agency for implementing this scheme through its empaneled agencies. This scheme is a well thought out scheme and is being diligently implemented by NSIC which has given a huge boost to the MSME sector. Now the awareness of the scheme is increasing day by day and subsidy budget was also substantially increased. But more intense efforts are still required by NSIC to propagate the scheme. More emphasis on micro enterprises is required and inclusion of medium enterprises should be there in this scheme

Keywords

Education, Opportunities, Challenges, Innovation, Universities.

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“MSMEs provide immediate large scale employment. They offer a method of ensuring a more equitable distribution of national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized.”—A statement of Planning Commission

MSME sector is an important constituent of Indian economy as it contributes greatly to the Indian economy with a vast network of around 3 crore units, creating employment of about 7 crore, manufacturing more than 6,000 products. MSME sector contributes about 45% to manufacturing output and about 40% of exports, directly and indirectly. The Government of India understands and appreciates the significant contribution made by the various SMEs in terms of employment generation, technology development and developing a spirit of competitiveness among Indian entrepreneurs.

Recognizing the importance of MSME sector in India, Government has done great efforts to strengthen and facilitate this sector. The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. Besides it Government has introduced a Performance and Credit Rating scheme for SSI in India. National Small Industries Corporation (NSIC) has been made the nodal agency for implementing this scheme through its empaneled agencies.

Objectives of the Study

In this study our focus will be on the Performance and Credit Rating Scheme for Small Scale Industries given by the Govt. of India. Various features of this scheme will also be discussed. As NSIC has been made the nodal agency for implementing this scheme, so role of NSIC in this regard will also be discussed. Suggestions will also be given about credit rating system of SSI prevailing in India.

Sources of Data

This research paper is basically based on the secondary data resources and the personal observation of the researcher. The main sources of the secondary data are the annual reports of National Small Industries Corporation, Annual reports of the Ministry of MSMEs and various research papers/articles etc. Analysis and interpretation technique has been used to explore information. Range of data has been selected from the year 2010-2011 to 2014-2015 i.e. five Years.

Meaning of Credit Rating

In simple words, credit rating (credit score) is a statistical method to determine the credit worthiness of a borrower. This credit score is derived keeping in view the current Operational and Financial Performance ; future prospects of Operational and Financial Performance of the concerned entity and; the capacity of the entity to repay its short & long term obligations.

The current and future aspects of the Operational and Financial Performance & the solvency of the entity; are derived from the historic, detailed & critical study of the various type of financial statements provided by the entity which wants to get a credit score. Different credit rating agencies have different evaluation systems, each based on different factors. The scoring systems are based on different criteria which are assigned weights differently.

Need of Credit Rating

Modern Business has become increasingly dependent on credit. Therefore, to get credit facilities from recognized institutions on liberalized norms; or to have a guaranteed subscription of the issue of shares, bonds etc. and; overall to make an image & goodwill in the eyes of investor to win his trust, existence of a good credit rating is a must. Otherwise the costs of funds will rise and process of acquiring credit & funds will be uncomfortable. Sometimes lack of good credit rating or having no credit rating becomes a cause of insufficient availability of funds.

Credit Rating Agencies in India

Indian credit rating industry mainly comprises of **CRISIL** (Credit Rating Information Services of India Limited), **ICRA** (Investment Information and Credit Rating Agency), **CARE** (Credit Analysis and Research), **ONICRA**, **SMERA**, **Fitch (India Ratings & Research)** etc.

Leading Credit Agencies of the World

- Standard & Poor's (S&P) – Headquarter – New York, US
- Moody's – Headquarter - New York, US
- Fitch - Headquarter - New York, US

Brief Introduction to National Small Industries Corporation Ltd.

National Small Industries Corporation Ltd. (NSIC) is an ISO 9001-2008 certified Government of India Enterprise under Ministry of Micro, Small and Medium

Enterprises (MSME) established in 1955 with the aim to aid, counsel, assist, finance, protect and promote the interests of MSMEs in India. NSIC is a national level organization with in depth knowledge of MSME sector and having presence in over 148 locations in the country, backed by a team of professionals.

The Corporation offers integrated package of services, ranging from financial support, marketing, technology and information support to micro, small & medium enterprises. The Corporation has strong linkages with micro, small & medium industry organizations/associations within the country and several partner organizations overseas for development of MSME sector. NSIC has been made the nodal agency for implementing this scheme through its empaneled agencies.

Mission of NSIC

“To enhance the Competitiveness of Micro, Small and Medium Enterprises by providing integrated support services encompassing, Marketing, Finance, Technology and other Services.”

Vision of NSIC

“To be premier organization fostering the promotion & growth of Micro, Small and Medium Enterprises in the country.”

Performance & Credit Rating Scheme For Small Scale Industries

Keeping in view the enhanced importance of MSME sector i.e. SSE sector, there was a great need to develop a Performance & Credit Rating Scheme which would be helpful in enhancing their acceptability in the market and also make access to credit quicker and cheaper and thus help in economizing the cost of credit. Besides it, the rating would also infuse a sense of confidence amongst the investors or the lenders and different concerned parties..

With above background, Government has prepared a Performance & Credit Rating Scheme for Small Scale Industries in consultation with various stakeholders i.e. Small Industries Associations, & Indian Banks' Association and various Rating Agencies viz. CRISIL, ICRA, Dun & Bradstreet (D&B) and ONICRA etc. This scheme has been titled as “**Performance & Credit Rating Scheme For Small Industries**”.

Salient features of the scheme

1. NSIC has been made the nodal agency for implementing the scheme of performance and credit rating for Small Scale Industries in India. The SSI rating methodology will cover the various factors related to operations, finance, business

and management of the entity which has to be allotted credit rating. risks. To implement this scheme, various rating agencies will be included by NSIC in its panel. A part of the credit rating fee charged by credit rating agency form the SSI entity; will be subsidized by the NSIC.

2. The Small Scale Unit will be free to select any of the rating agencies empaneled with NSIC.

3. The rating process will be completed through the following steps:

- Request for Rating from SSI entity
- Collection of Information from the SSI entity
- Onsite meeting with SSI Management
- Analysis of Information obtained from the SSI entity
- Assign Rating

The validity of a rating will be for one year from the date of issue of the rating letter.

4. The Rating Agencies might have different fee structure for their rating of various Small-Scale Units. For the purpose of subsidizing the fee, a ceiling has been prescribed by the Government.

5. The fee to be subsidized has been indicated in the table given below-

Table 1

Credit Rating Fee to be Subsidized by Ministry of SSI through NSIC

Turnover of SSI	Subsidy Limit
Up to Rs.50 lacs	75% of the fee charged by the rating agency subject to a ceiling of Rs.25,000/-
Above Rs.50 lacs to Rs.200 lacs	75% of the fee charged by the rating agency subject to a ceiling of Rs.30,000/-
Above Rs.200 lacs	75% of the fee charged by the rating agency subject to a ceiling of Rs.40,000/-

The balance amount towards the fee shall be borne by the Small-Scale Units.

6. While the criteria for evaluation would be left to each of the Rating Agencies, the symbols and their definition for indicating the risk score in the rating awarded has been evolved for uniform implementation by the Rating Agencies. The Rating to be awarded by each of the Rating Agencies shall be prefixed by the word NSIC. Thus Rating awarded by say ICRA shall be termed as “**NSIC-ICRA Performance and Credit Rating**”

7. The Rating Agencies shall share the Rating awarded to SSI units with NSIC.

8. Application form

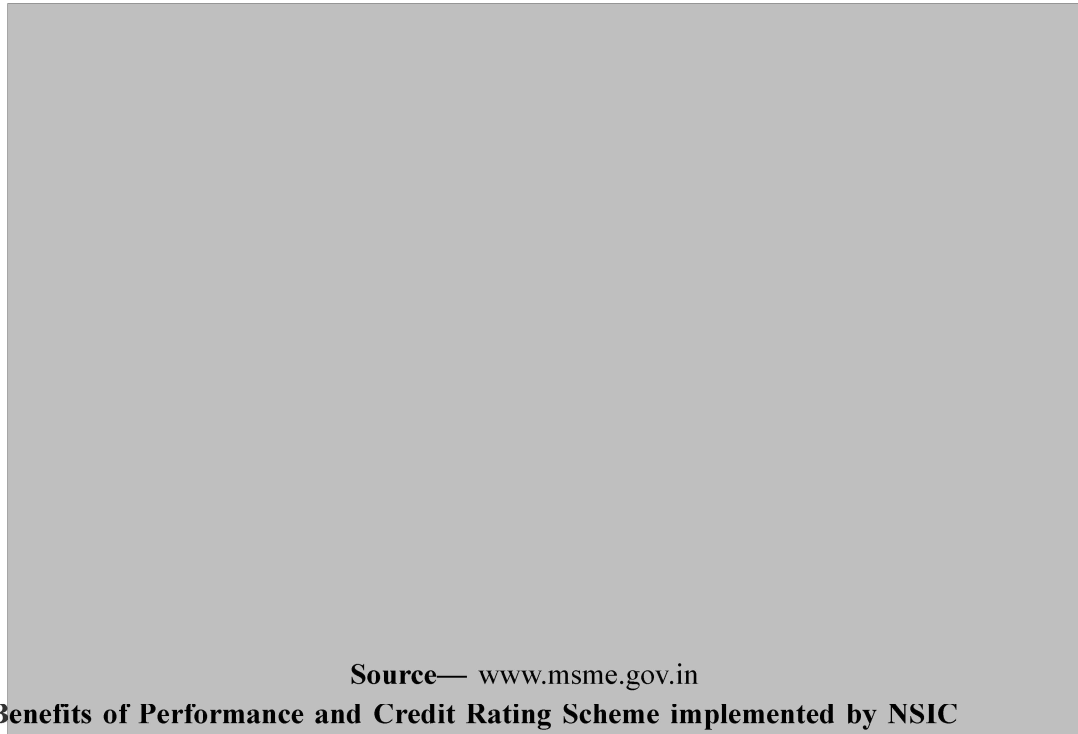
The application form for request for rating will be available at all the offices of NSIC and with the empaneled Rating Agencies and; on their websites also. Any SSI unit wishing to apply for rating will have to fill up the prescribed application form and submit the same to NSIC or the rating agency chosen by it.

9. Time frame for completion

From the date of receipt of all information from the applicant unit, the rating agency shall complete the exercise of evaluation and award of Rating within one month thereof.

Table 2

Rating Scale of SSEs on Performance and Credit Parameters under the NSIC Scheme of Rating of SSEs.



Source— www.msme.gov.in

Benefits of Performance and Credit Rating Scheme implemented by NSIC

- An independent, trusted third party opinion on capabilities and credit-worthiness of SSIs.
- Availability of easy credit to SSI entities at attractive interest rates due to reliable credit rating.

- Recognition in global trade due to reliable credit rating.
- Subsidized rating fee structure for SSIs.
- Facilitate vendors/buyers/investors/lenders in capability and capacity assessment of SSIs
- Enable SSIs to ascertain the strengths and weaknesses of their existing operations and take corrective measures.

Data Analysis

Table 3
Performance & Credit Rating Fees Subsidized by NSIC

Year	Amount (Lac Rs.)
2010-11	3373.62
2011-12	4422.72
2012-13	6434.54
2013-14	8067.86
2014-15	7265.92

Source—Annual Reports of NSIC

The above Table No. 3 shows that the amount of performance & credit rating fees subsidized by NSIC has increasing trend from 2010-2011 to 2013-2014. In 2014-2015 the amount has decreased. The fee subsidized by NSIC was 3373.62 Lac, 4422.72 Lac, 6434.54 Lac, 8067.86 Lac and 7265.92 Lac for the last five Years.

TABLE 4
No. of Units Credit-rated by NSIC through its Empaneled Agencies

Year	No. of Units Credit-rated
2010-11	10327
2011-12	13547
2012-13	19676
2013-14	24886
2014-15	23373

Source—Annual Reports of NSIC

The above Table No. 4 shows the number of units credit rated by NSIC through its empaneled agencies during the last five Years. This figure also has an increasing trend from 2010-2011 to 2013-2014. In 2014-2015 the number of units credit rated decreased. The number of credit rated units was 10327, 13547, 19676, 24886 and 23373 during the last five years from 2010-2011 to 2014-2015.

Suggestions to improve Credit Rating to SSEs

- NSIC should; educate the SMEs on what benefits they may acquire when an external source rates them, educate the SMEs on how to use the reports they receive from the rating agencies for improving their performance & educate the bankers on the real need for SMEs to be rated (apart from just the interest cost benefit).
- NSIC should conduct series of seminars of bankers and SME sector to increase the awareness of the scheme.
- NSIC should motivate the poor rated units. There should be incentives for these types of units if they acquire better ratings at the time of renewal.
- NSIC should use print and electronic media such as newspapers, television advertisements, emails, etc. to popularize the credit rating scheme and spread awareness about the benefits of credit rating. Advertisements in print media especially in the vernacular press would be an effective promotion tool.
- NSIC registered companies should be made aware of the scheme through web enabled e-services.
- Institutions under the Govt. of India either having its own offices in different states or having network with local institutions should be used for promotion of the scheme.
- All industries associations should be pursued to promote this scheme to their respective members

Conclusion

The above discussed policy for SSI rating has characteristics of popularity, recognition, relevance and growing acceptance amongst enterprises as well as financiers. Better ratings have helped the SMEs retain customers and suppliers, and negotiate better terms with them in terms of pricing their products. Lenders and investors are also delighted with the benefits of this scheme as they are able to engage their funds profitably and safely. SMEs can submit credit rating report for tenders and make themselves more credible to get bigger orders SME rating is used by MSME units to obtain financing from banks and possibly negotiate a lower interest

rate. It also provides easier access to other sources of finance such as private equity. Another advantage of rating is that the highlighting of strengths and weaknesses acts as a trigger for self-correction. A regular renewal of ratings not only helps improve a firm's performance but also builds confidence within the lender fraternity and trading channel.

This scheme is a well thought out scheme and is being diligently implemented by NSIC which has given a huge boost to the MSME sector. Now the awareness of the scheme is increasing day by day and subsidy budget was also substantially increased. But more intense efforts are still required by NSIC to propagate the scheme. More emphasis on micro enterprises is required and inclusion of medium enterprises should be there in this scheme. In fact, this scheme has led to the positive growth of SSIs in India. Rated enterprises have got Ease in accessing finance but also in improving their over-all operational efficiency. The culture of credit rating is spreading amongst SMEs as increasingly they are applying for renewal of their ratings, thus exhibiting the potential of rating as tool to avail monetary as well as nonmonetary benefits.

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