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Get rated to be banked | Varun Mirchandani, Executive Director, Onicra

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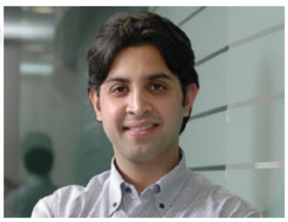

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Mirchandani told SMEpost.com in an Exclusive Interview that a credible rating was the password to funding of SMEs in India. The rating push for perking up credit worthiness can provide a new momentum to the sector starved of funds.

He claimed his agency had so far rated over one lakh Small and Medium Enterprises and that the rated entrepreneurs had shown a 43% increase in institutional funding, 27% increase in net profits and a 15% reduction in cost of borrowing. *"These MSMEs have grown at over 18%, even in the recessionary period and saved nearly Rs 200 crores in interest costs to become more competitive."*

The rated MSMEs have created 1,001,330 jobs, an average of 11 jobs per enterprise, Mirchandani said. Onicra argued that a rating mechanism would help to build trust and showcase the capability of small supplier to large businesses.

Of the 48 million micro, small and medium enterprises, he said only about five million were registered. Onicra boasts of a customized Performance and Credit Ratings (PCR) Scheme to rate small and medium enterprises.

"We feel that if this scheme is implemented across the spectrum of the entire registered MSME space of around five million SMEs, then unbanked SMEs (55% of the population) can avail of first time credit to the tune of INR 550,000 crores", predicted Mirchandani.

He also argued for credit rating for firms that are already banked to help have increased access to credit thereby facilitating financial inclusion and economic growth.

Onicra said it had rated more than 2000 new entrepreneurs in the north-east region where the SMEs enjoy a benefit of lower interest rates from anywhere between 0.25 to 1 percent cheaper on their capital.

The rating agency management sees virtue in its rating mechanism given it had demonstrated two primary benefits to the financial eco-system through increased Credit Off-take and reduced Non Performing Assets (NPA) levels.

Increased Credit Off-take

The scheme has helped MSMEs to avail more credit from the banking system on account of reduced information asymmetry between themselves and the banks. A study on a sample of 1500 random MSMEs revealed that MSME credit off-take had increased 43% in the year following the rating. The PCR scheme also enabled banks to take a more informed view on the credit worthiness of the MSMEs, thereby reducing NPA levels.

The study of 1500 random MSMEs revealed that NPA levels stood at around 2.47%, which were lower than the NPA levels of Public Sector Banks for MSME lending that stood at around 7%.

"We feel that for every 100 basis points saved in NPAs by way of the PCR scheme, there is potential to save around Rs 7500 crore, which is freed up for credit deployment", Mirchandani claimed.

He stated the focus should be innovation and entrepreneurship, easier credit flow, and creating market linkages for MSMEs to help them showcase their abilities for "Make in India" and international markets.

According to Mirchandani, commercial and nationalized banks must play a greater role than before to facilitate credit flow to the SMEs. The scope of priority sector lending must be increased utilizing the performance and credit rating scheme.

He also suggested that ratings could be linked to the Public Procurement Policy so as to assess the capacity and capability of the MSMEs and create market linkages.