APRIL 2014

SME INSIGHTS

A Newsletter from ONICRA

Onicra Credit Rating Agency of India Limited

ABOUT ONICRA CREDIT RATING AGENCY OF INDIA LIMITED (ONICRA)

Onicra Credit Rating Agency is an active player in the Credit and Performance Assessment space. It provides analytical risk assessment and rating solutions to MSMEs and Corporate.

These ratings enable the lender, service provider or any other stake holder to make smart, value based decisions on the Micro, Small and Medium Enterprises (MSME) or the corporate by arming them with essential information including financial, operational, 3-Dimensional analysis that provides a holistic view about the entity.

About Onicra MSME Ratings

The Ministry of MSME through NSIC has signed a memorandum of understanding with Onicra to provide performance and credit rating services to MSMEs. The rating creates awareness about the strengths, weaknesses, opportunities and threats, and assists in identifying areas of improvement for the MSME. Under this scheme, the MSME only pays 25% of the rating fee to Onicra while the remaining 75% is paid by NSIC as subsidy.

The company has rated around 27274 MSMEs since 2005.

NSIC scheme features

Benefits of NSIC- Onicra Performance and Credit Rating

- Assists in risk management by highlighting parameters measuring operational, financial and business risk.
- Enhances acceptability with Banks, Financial Institutions and provides access to cheaper and timely credit.
- It is a "holistic health check-up of the unit" that establishes credibility, goodwill and assists in dealing with large companies.
- Helps in marketing and serves as first point to generate interest among potential partners.

ECONOMIC PERSPECTIVE

Executive Summary

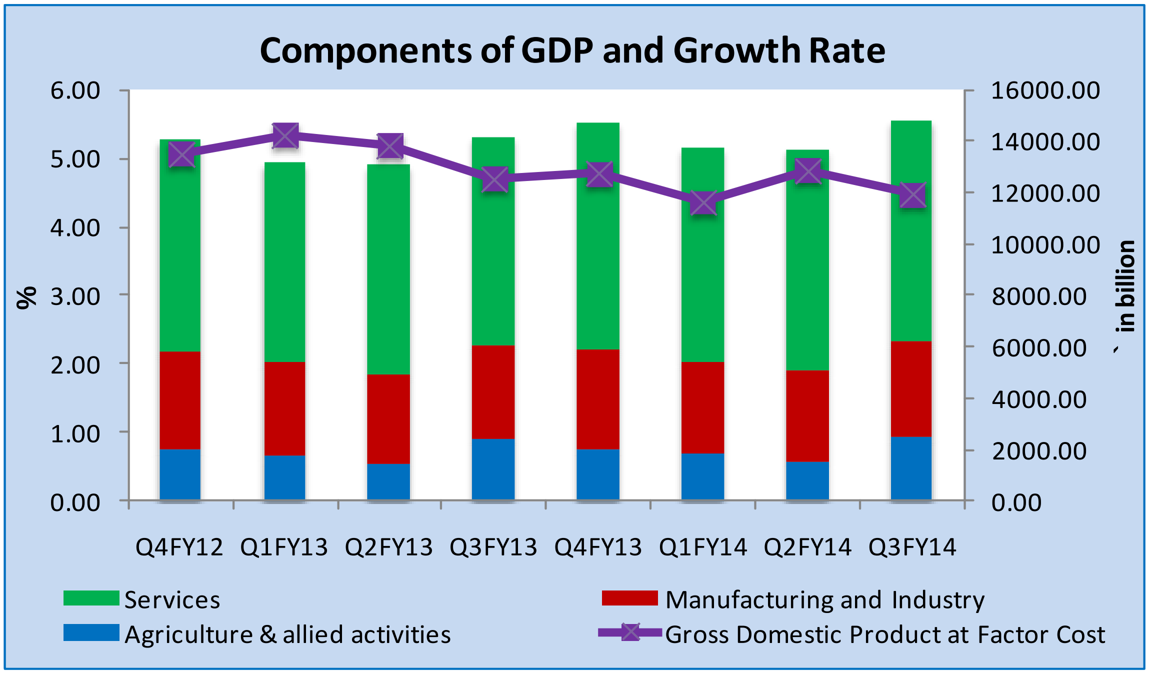
The Indian economy has been a witness to a decline in the last quarter growth and rating agencies across the world are proposing a rating downgrade in case the elections, due in May, fail to deliver a stable government which can revive growth. Most of the rating agencies have accorded negative outlook to their rating of India. Laxity in clearing developmental and infrastructural projects has badly impacted the manufacturing sector which has resulted to the downfall of the Indian economy in the previous three consecutive quarters. Due to this policy paralysis, India faces a week growth rate in the fiscal year 14 (FY14), in-spite of a revival of agricultural sector owing to good production of crop.

RBI has already raised the interest rates in the last few months to control inflation. This has further hampered the industrial investment even though there is respite in inflation. Aggregate domestic demand too has declined as a result of higher interest rates, which has worsened the situation. The domestic investor poses less confidence in the Indian market than ever before and is choosing to stay away from the financial markets. Gold and real estate are increasingly being considered as safe havens. Investment, Production and Consumption are being affected in the process.

On the global front, the advanced economies have shown signs of recovery. The US has announced tapering of financial stimulus through the bond buy back route, while the UK has been buoyed by easier credit conditions. This has further tightened the financial flows to the emerging markets, including India. However, as the returns in the Indian financial market are still higher than outside, the foreign investment inflows have been resilient till the period studied.

Apart from this, speculation in the currency market, rising CAD and uncertain policy regime have aggravated the situation. The government has yet again failed to keep its fiscal deficit within the target. A lot now depends on the stability of the government that appears after the elections and its approach towards the policy changes required in the Indian economy.

Economic Growth



Source: CSO

Note: Gross Domestic Product (GDP) at constant price

Composition of Sub-Sectors of GDP

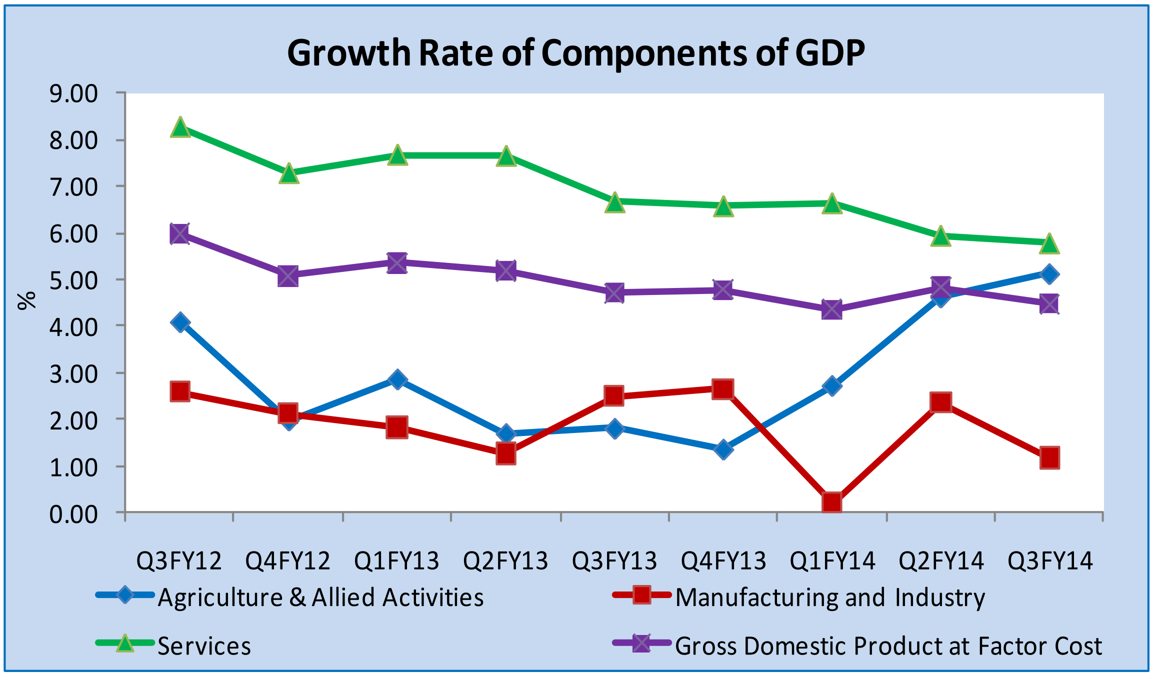
(%)

Sectors	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Agriculture & Allied Activities	**13.87**	**13.46**	**10.83**	**16.83**	**13.41**	**13.25**	**10.80**	**16.93**
Manufacturing and Industry	**27.31**	**27.31**	**26.96**	**26.01**	**26.76**	**26.22**	**26.32**	**25.19**
Mining & Quarrying	2.19	2.00	1.86	1.92	2.03	1.86	1.77	1.82
Manufacturing	15.47	15.31	15.32	14.68	15.14	14.50	14.76	14.31
Electricity, Gas & Water Supply	1.78	1.98	1.94	1.82	1.75	1.97	2.00	1.83
Construction	7.87	8.02	7.83	7.59	7.84	7.89	7.79	7.22
Services	**58.82**	**59.23**	**62.21**	**57.16**	**59.83**	**60.53**	**62.87**	**57.88**
Trade, Hotel, Transport and Communications	27.65	28.17	28.34	26.83	28.03	28.04	28.13	25.91
Finance, Insurance, Real Estate & Business Services	17.53	19.09	19.46	18.18	18.26	19.93	20.41	19.94
Community, Social & Personal Services	13.63	11.97	14.42	12.16	13.54	12.55	14.34	12.03
Gross Domestic Product at Factor Cost	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Growth Rate of Sub-Sectors of GDP

(In %)

Sectors	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Agriculture & Allied Activities	**1.98**	**2.86**	**1.69**	**1.80**	**1.35**	**2.72**	**4.63**	**5.13**
Manufacturing and Industry	**2.12**	**1.82**	**1.27**	**2.49**	**2.66**	**0.21**	**2.35**	**1.18**
Mining & Quarrying	5.17	0.37	1.68	-0.69	-3.07	-2.79	-0.41	-0.73
Manufacturing	0.11	-1.04	0.06	2.48	2.58	-1.19	1.01	1.85
Electricity, Gas & Water Supply	3.54	6.16	3.20	4.50	2.78	3.69	7.73	5.01
Construction	5.09	7.04	3.13	2.87	4.38	2.78	4.29	-0.58
Services	**7.27**	**7.66**	**7.64**	**6.65**	**6.57**	**6.63**	**5.94**	**5.78**
Trade, Hotel, Transport and Communications	5.07	6.10	6.80	6.39	6.21	3.88	4.04	0.91
Finance, Insurance, Real Estate & Business Services	11.35	9.28	8.33	7.81	9.10	8.94	9.97	14.59
Community, Social & Personal Services	6.81	8.86	8.39	5.55	4.05	9.42	4.24	3.35
Gross Domestic Product at factor cost	**5.07**	**5.35**	**5.19**	**4.71**	**4.78**	**4.35**	**4.83**	**4.47**



Contracting industrial output and an investment slow down has dragged down the growth of the Indian economy in the period September 2013 to December 2013 (Q3FY14). Even though depressing, the fact of the matter remains that since the last seven quarters, the growth of any given quarter has been lower than the growth of the corresponding period previous year. Even though the manufacturing and industry sector had promised growth in Q2FY14, it again faltered in the Q3FY14 on the back of a poor investment climate.

The sheen of the services sector, which had become the sunrise sector in the boom period of 2010-11 and had shown impressive growth in that period, has eroded and it has shown a continuous decline in the period April-December 2013. This has a graver effect on the GDP of the economy as the share of the services sector in the total Indian GDP is highest at 57.9%. Agriculture and Allied Activities sector has gained importance and share in total Indian GDP in wake of better crop production and decline in services sector. Posting better improvement in the growth rate than the other two sectors, the agriculture and allied activities sector has propelled the growth rate of the Indian economy to 4.5%, which is still lower than the expected growth rate of 4.9%.

Agriculture and Allied Activities

The Agriculture and Allied Activities sector has shown a gradual resurgence in the last two years and reached to the growth rate levels of the early FY12 period. Consequently its share in the total GDP has also increased to 16.93%, highest since Q4FY11. As per the first advance estimates data released by Department of Agriculture and Cooperation, improvement in the sector is attributed to an increase in the production of crop.

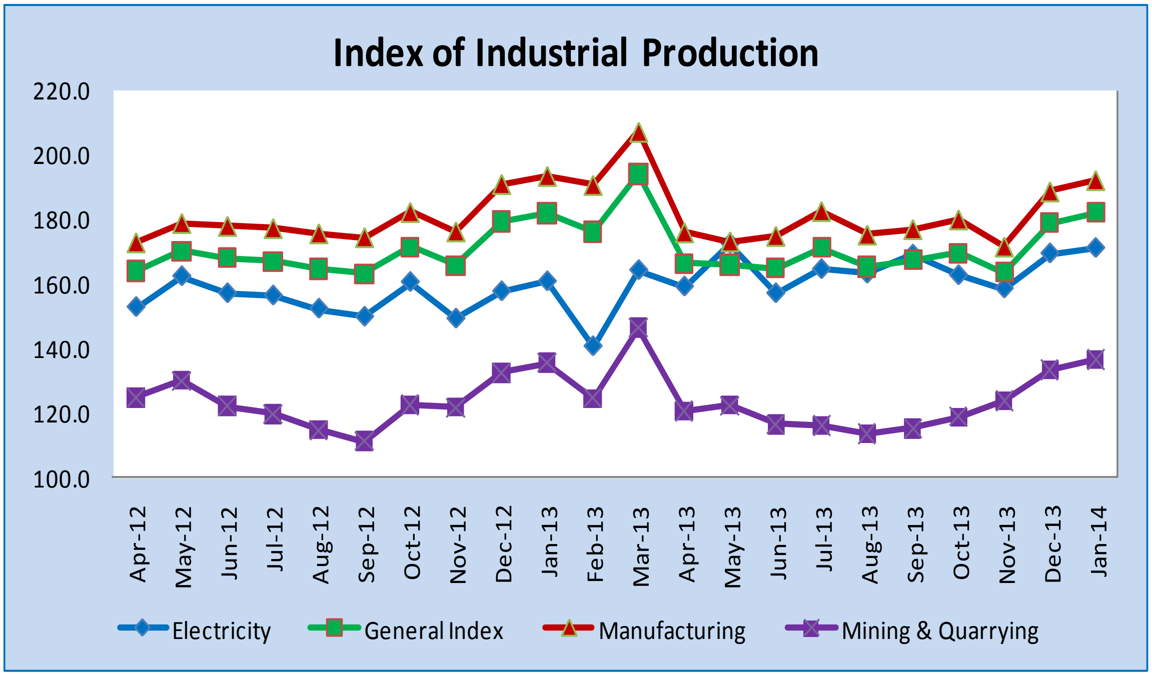
Improvement in Production

	Growth in FY13 (%)	Growth in FY14*(%)
Oilseeds	0.04	6.28
Cotton	-2.84	4.09
Sugarcane	-5.48	1.38
Food grains	-0.77	2.33

Source: Department of Agriculture and Cooperation
* Advance Estimates

The improvement in sector has been supported by a good rain fall in the last two years consecutively. Rainfall in the south west monsoon season (June 2013 to September 2013), which accounts for more than 75% of the rainfall was 864.7 mm against a normal of 829.2 mm. Similarly, rainfall in post monsoon season (October 2013 to December 2013) was 145.7 mm against a normal of 116.8 mm.

Manufacturing and Industry



The index of industrial production has shown a slow upward movement, indicating an almost stagnancy, over the period August'2013 to December'2013 before declining in January 2014. Moreover, the month on month growth trend of the index has been negative for all the sub sectors of industrial production. This does not bode well for the growth of the Indian economy.

The manufacturing and industry sector has been handicapped by the mining and quarrying sub sector which has shown a deceleration in the growth since the last 1.5 years. The decline in the production of coal by 0.3% over the corresponding quarter previous year has been a major factor affecting the mining and quarrying sub sector. The sub sector suffers from lack of reformative action by the government. Moreover, the construction sub sector has also dragged down the sector's growth rate due to decline in its contribution to the Indian GDP. The finished steel consumption has declined by 0.1% over Q3FY13 affecting the construction sub sector.

The manufacturing and industry sector could not keep up the momentum promised in Q2FY14. The efforts made by the central government such as creation of a Cabinet committee of investment for quick approval of stalled projects and clearance of laws such as Land Acquisition Act have not been effectively implemented. This has impeded a conducive investment environment for the Indian manufacturing and industry sector. Most of the domestic institutional investors have stayed away from the financial markets during the period. Foreign investment too has remained volatile as the advanced economies are showing signs of recovery.

Service

Services sector has been the mainstay of the Indian economy over the years. However, its contribution to the GDP and its growth has continuously decreased over the last three quarters. The lead factor in the decline in Q3FY14 is the trade, hotel, transport and communications sub sector. In the transport and communication sub sectors, the sale of commercial vehicles and cargo handled at major ports have registered a growth rate of (24.6) % and 0.9% respectively. The contribution of railways to transport, which is a key indicator of services sector, has also declined. The net tonne kilometer and passenger kilometer have registered a growth rate of (0.3) % and (1.7) % respectively in Q3FY14.

During the period April-December 2013 bank deposits and bank credits have shown an inspiring growth rate of 15.9% and 14.5% respectively which has lead to a growth of finance, insurance, real estate and business services sub sector. This sub sector has been the only saving grace for the services sector during the last quarter.

Consumption Drivers

Growth in %	Q2FY13	Q2FY14
Production of Food Products and Beverages	7.54	(9.47)
Production of Apparel	(0.67)	13.46
Production of Consumer Goods	7.83	(25.00)
Deployment of Bank Credit to Housing*	9.40	2.60

Source: RBI
* including priority sector housing

The above table indicates that there has been a significant growth in the apparel groups in the Indian economy. This is indicative of the increasing government support to the industry groups in form of various schemes running such as financing the SME units, funding the technology up-gradation, etc. However, all the other major consumption drivers have seen a decline due to a poor investment and consumption climate in the economy. With RBI choosing to keep high interest rates as a tool to control inflation, the consumer spend has decreased. A dwindling domestic demand added to lack of government initiative on improving the industrial growth has had a negative impact on the Indian economy.

Investment Drivers

Industry wise Deployment of Gross Bank Credit

Particulars	Share towards Deployment of Gross Bank Credit As on 21st February 2014 (%)	YOY Growth (%) (February-February)	
		2013	2014
Infrastructure	33.02	19.69	13.06
Basic Metal & Metal Product	13.66	21.40	14.84
Textiles	8.36	14.67	12.47
Chemical & Chemical Products	6.38	23.74	7.35
All Engineering	5.95	13.21	13.57
Food Processing	4.78	27.34	28.81
Vehicles, Vehicle Parts & Transport Equipment	2.81	13.66	13.57
Gems & Jewellery	2.67	19.53	17.76
Construction	2.63	9.47	13.75
Petroleum, Coal Products & Nuclear Fuels	2.55	23.06	-2.02
Cement & Cement Products	1.97	24.76	16.35
Mining & Quarrying (incl. Coal)	1.63	11.31	6.07
Rubber, Plastic & their Products	1.58	4.44	19.37
Paper & Paper Products	1.31	12.99	19.51
Beverage & Tobacco	0.79	10.71	6.87
Leather & Leather Products	0.40	12.12	21.32
Glass & Glassware	0.33	15.36	22.15
Wood & Wood Products	0.32	24.94	22.44
Other Industries	8.86	2.58	7.23
Industries	**100.00**	**17.41**	**13.21**

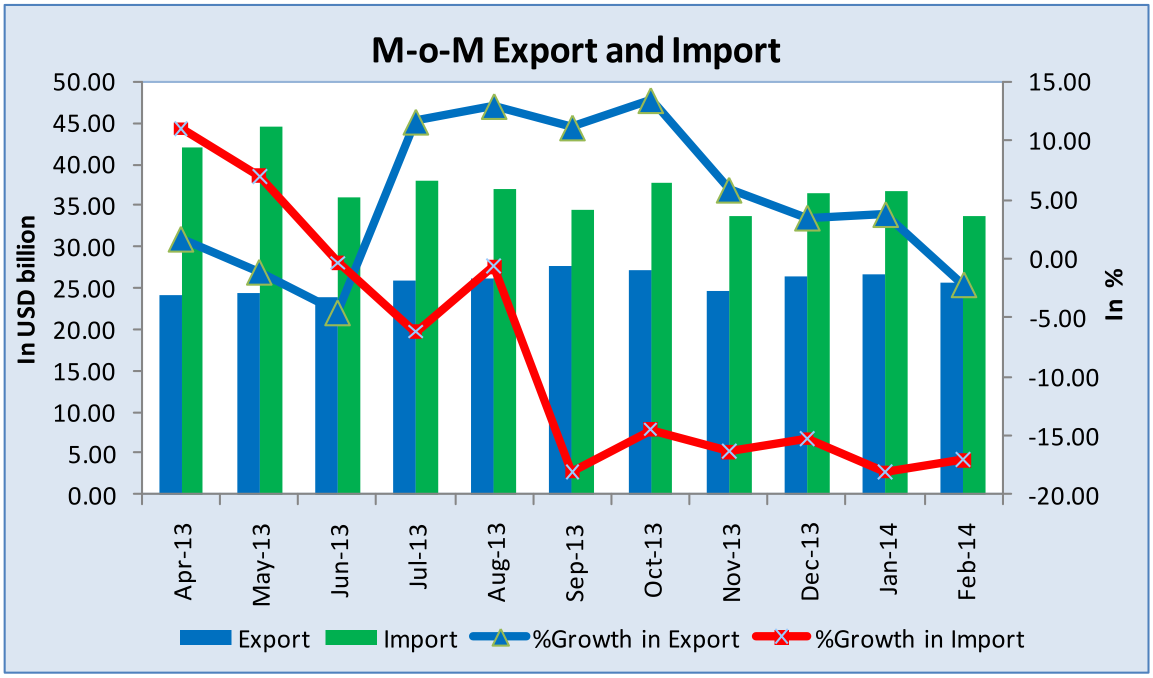
Source: RBI

As on 21st February 2014, there has been a fall in the growth rate of credit deployment to 13.2% as compared to 17.4% in the previous year. Infrastructure, basic metal and metal products, textiles, chemical and chemical products, all engineering and food processing industries have accounted for major shares in overall credit to industry.

Out of the list of industries only five industries have shown an increment in the credit deployment growth rate as compared to last year. The industries which have shown growth includes leather and leather products, paper and paper products, rubber, plastic and their products, glass & glassware and construction.

The decline in credit deployment growth towards industry was mainly due to slower pace or decline (in some cases) of credit deployment in industries like chemical & chemical products, petroleum, coal products & nuclear fuel, cement & cement products, basic metal & metal products and infrastructure. Infrastructure which forms the major component of the gross credit deployment registered a decline in the growth rate by 6.6 percentage points.

Export-Import Trend



Foreign Trade
(USD billion)

	Export	%Growth in Export (YOY)	Import	%Growth in Import (YOY)	TRADE BALANCE
Apr-13	24.16	1.70	41.95	11.00	-17.78
May-13	24.50	-1.11	44.64	6.99	-20.14
Jun-13	23.78	-4.56	36.03	-0.37	-12.25
Jul-13	25.83	11.64	38.10	-6.20	-12.27
Aug-13	26.14	12.97	37.05	-0.68	-10.92
Sep-13	27.68	11.15	34.43	-18.10	-6.76
Oct-13	27.27	13.47	37.82	-14.50	-10.55
Nov-13	24.61	5.86	33.83	-16.37	-9.22
Dec-13	26.35	3.49	36.49	-15.25	-10.14
Jan-14	26.75	3.79	36.67	-18.07	-9.91
Feb-14	25.68	-2.17	33.81	-17.09	-8.13

Source: Ministry of Commerce & Industry

After continuously rising in the last seven months, India's exports have declined by 2.2% in February 2014. The decline in exports in February was mainly due to a fall in exports of petroleum products, gems & jewellery, engineering goods and drugs & pharmaceuticals. Taken together, these four groups account for 75% of India's total exports. Gems & jewellery exports have fallen in nine of the last 11 months due to fall in the international prices of gold, silver and polished diamonds and a decline in availability of gold due to the RBI's rule to curbs gold imports.

India's imports have registered a significant fall from April 2013 to February 2014. There has been a decline in India's imports by a sharp 17.1% in February 2014 to a three-month low of USD 33.81 billion due to decline in the import of petroleum products and gold & silver. This was the sixth consecutive month of a double-digit fall in imports. Imports were also lower than the average monthly level of imports of USD 35.8 billion that were seen during the last five months.

Petroleum, Oil and Lubricant (POL) import account for one-third of India's total imports. They fell by 3.1% to USD 13.7 billion in February 2014. The decline was mainly due to a fall in international crude oil prices. The price of the Indian basket of crude oil averaged 4.8% lower at USD 105.9 per barrel during January-February 2014 on a y-o-y basis.

India's gold & silver imports declined for the eighth consecutive month in February 2014. It dropped by more than 70% to USD 1.6 billion mainly on account of a sharp fall in gold import volumes along with a fall in the international gold and silver prices thereby suppressing the value of these imports. Imports of commodities other than POL and gold & silver declined by a sharp 11.8% to touch a three-year low of USD 18.5 billion in February 2014. This was the eleventh consecutive month of a decline.

Although India's exports declined in February 2014, the larger fall in imports more-than offset the fall in exports. As a result, the deficit contracted by 42.5% to USD 8.2 billion as compared with the deficit in the same month a year ago. This was the eighth consecutive month of a year-on-year fall in the deficit. This was also the lowest level of the deficit in the last five months.

Interest Rate

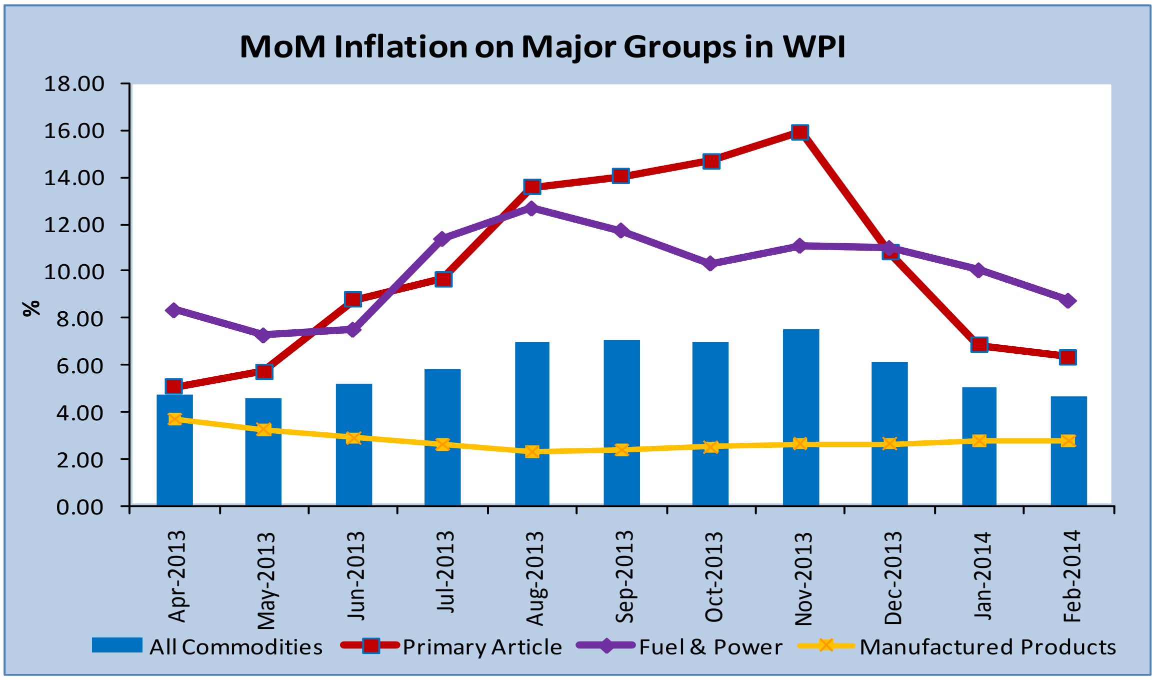
Item/Week Ended	2013		2014	
	15-Jul	**26-Nov**	**28-Feb**	**1-April**
Cash Reserve Ratio (%)	4.00	4.00	4.00	4.00
Repo Rate (%)	7.25	7.75	8.00	8.00
Reverse Repo Rate (%)	6.25	6.75	7.00	7.00
Marginal Standing Facility (MSF) (%)	10.25	8.75	9.00	9.00

Source: RBI

Since July 2013 a number of measures have been put in place by RBI in order to reduce the volatility in the foreign exchange market. On 7th October 2013, there has been a further cut in the MSF rate from 10.2% to 9.0% in the wake of strengthening of rupee and easing of money market operations.

Since December 2013, the sharper than expected decrease in the growth of inflation in vegetable prices has enabled a sizable fall in headline inflation. On 28th February 2014, RBI has increased the repo rate by 25 basis points from 7.7% to 8.0%. Subsequently the reverse repo rate under the liquidity adjustment facility stands at 7.0% and MSF as well as Bank Rate stands at 9.0%. Due to the fall in inflation in February 2014, RBI has kept the repo rate and reverse repo rate

Inflation



Source: RBI

WHOLESALE PRICE INFLATION (%)

Commodity	Weight	Apr 2013	May 2013	Jun 2013	Jul 2013	Aug 2013	Sep 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014
ALL COMMODITIES	100.00	4.77	4.58	4.86	5.79	6.99	7.05	7.00	7.52	6.16	5.05	4.68
Primary Articles	20.12	5.06	5.72	8.14	8.99	13.57	14.03	14.59	15.29	10.78	6.84	6.33
Food Articles	14.34	6.08	8.25	9.74	11.91	19.17	18.68	18.19	19.93	13.68	8.80	8.12
Non-Food Articles	4.26	7.59	4.88	7.57	5.51	1.21	4.92	6.79	7.60	6.04	4.40	5.13
Minerals	1.52	-4.52	-7.03	-0.52	-2.38	1.99	2.33	7.03	6.09	2.07	-0.20	1.52
Fuel & Power	14.91	8.33	7.27	7.12	11.31	12.66	11.72	10.33	11.08	10.98	10.03	8.75
Manufactured Products	64.97	3.69	3.25	2.75	2.81	2.31	2.36	2.50	2.64	2.64	2.76	2.75

In February 2014, inflation hit a nine month low of 4.7% due to moderation in the price of food articles and fuel & power. A 10% drop in wholesale vegetable prices from January helped overall inflation ease for the third straight month.

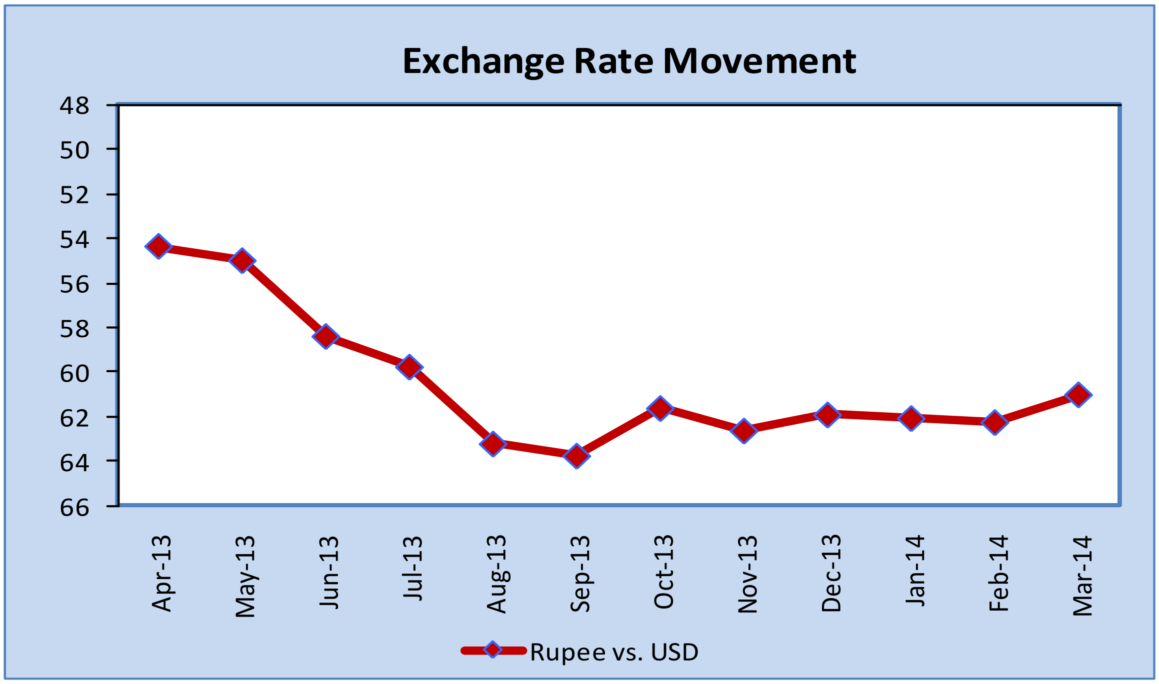
The index for 'Food Articles' group declined by 0.3% from 238.6 (provisional) to 233.6 (provisional) for the previous month due to lower price of poultry chicken (11.0%), egg (5.0%), gram and fruits & vegetables (3.0% each), maize and barley (2.0% each) and ragi, tea, bajra and arhar (1.0% each). Inflation related to food articles reached a low of 8.12%. The exceptional rise in prices of food articles in the previous months was because of supply disruptions due to heavy rainfall during the monsoon season, non-seasonal showers and supply chain bottlenecks caused by bandhs and blockades.

Inflation related to fuel & power declined to 8.8% in February 2014 from 10.0% in January 2014. The index for this major group declined due to lower price of LPG, coking coal, aviation turbine, kerosene and electricity. However, petrol and high speed diesel prices moved up.

Wholesale inflation in manufactured product group hovered in the range of 2-3% during June 2013- February 2014. The index for food products, beverages, tobacoo & tobacco products and textiles declined in February 2014. Inflation in export oriented commodities and those using imported inputs such as textiles, leather & leather products, chemical & chemical products and rubber & plastic products registered an increase in line with the rupee depreciation.

FINANCIAL MARKET

Currency Market



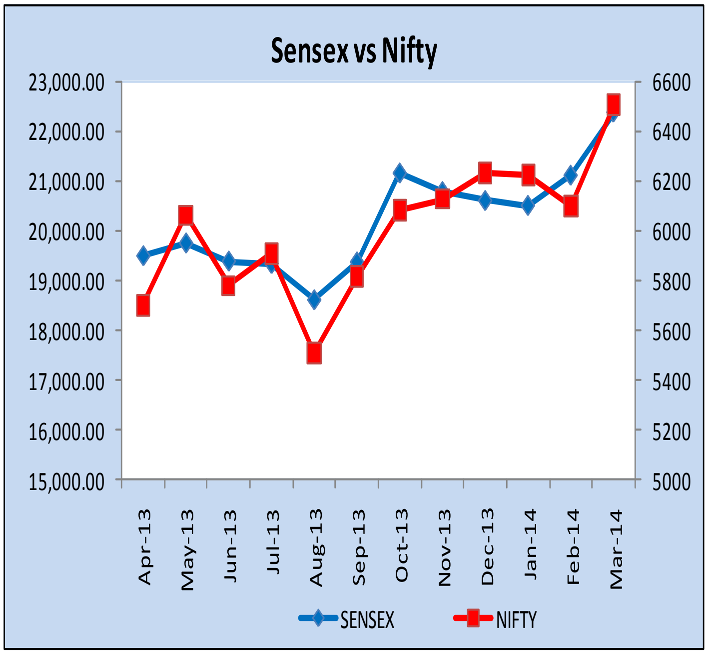
Source: RBI

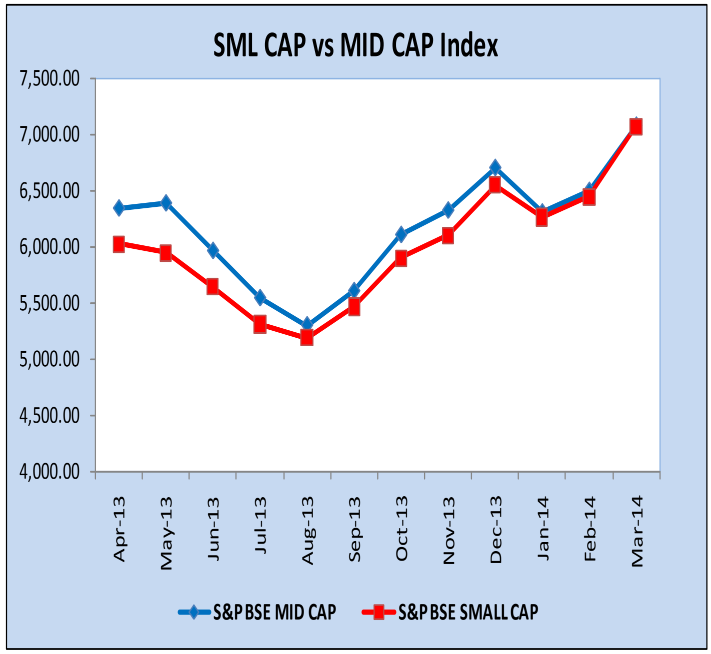
* Units on y-axis in reverse scale

Since May 2013, rupee has taken a beating due to massive capital outflows on worries of withdrawal of the US Federal stimulus. The fall in rupee also lead to capital erosion as foreign investors pulled out their investment. Apart from this, speculation in the currency market, rising current account deficit (CAD) and uncertain policy regime have aggravated the situation. Rupee has reached all time low of 68.36 per dollar on 28th August 2013 which lead to a massive outflow of funds by FIIs.

The rupee has started regaining some of its strength since September 2013 and has since rebounded 14.9% with the RBI managing dollar demand and the governor's assurance that there is no fundamental reason for volatility in the value of the rupee. There is an improvement in the current account deficit too which has helped improve market sentiment.

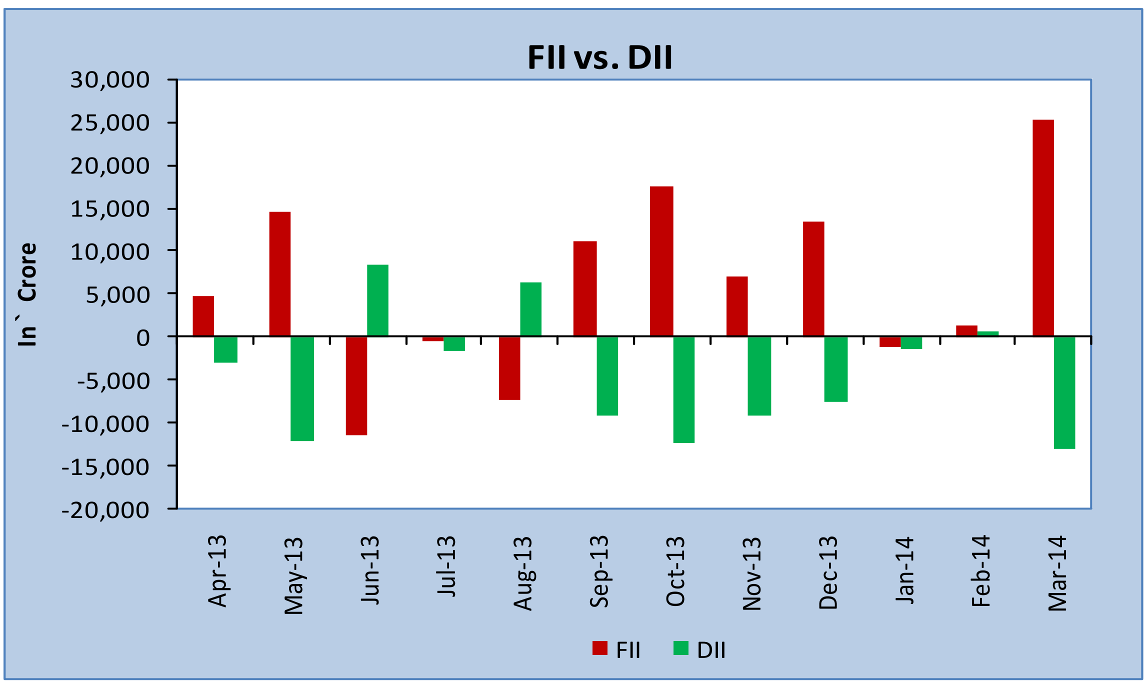
Equity Market





Source: BSE & NSE

FII vs. DII Movement



Source: SEBI

After a weak month of January, market recovered some lost ground with Sensex rising by 2.9% in February 2014. Midcap and Smallcap indices also saw a bit of revival and rose by 3.0% and 2.9%, respectively. Capital goods and Auto were the best performing sectors during the month and registered a gain of 10.8% and 9.0% respectively.

As the US continues to reduce its bond buying program, FIIs are turning a little more cautious on the developing economies in absence of easy liquidity. India, however, continued to be a favoured destination as FIIs pumped in another USD 0.3 billion into Indian equities. However, domestic MFs continued to sell equities and were net sellers to the tune of USD 0.2 billion during the month.

Foreign investors invested hugely in the domestic equities in 2013-14 because Indian equity markets gave one of the best returns among the emerging countries. However, overseas investors became net sellers of equities between June and August as the US Federal Reserve's announced that it would taper its quantitative easing strategy. FII flows remained volatile through the year, with foreign investors pulling out USD 3.7 billion between June and August, soon after the US Federal Reserve hinted at tapering its bond-buying programme, leading to nervousness across global markets. India, along with other economies that were running large current account deficits bore the brunt of selling from foreign investors. Economic growth has been suffering and that had been a major turn-off for FIIs.

FIIs once again flocked towards Indian stocks and bought bagful of stocks in September as RBI Governor Raghuram Rajan announced slew of measures to boost the weakening rupee and revive economic growth. After that the inflows continued till the fiscal year-end. Foreign Institutional Investors (FIIs) remained net buyers on improving economic growth and rupee rising to over seven-month high against the dollar. The momentum of fund inflow in stocks picked up in the month of March 2014 on hopes that a stable government will come to power in general elections starting next month.

Outlook

The Q3FY14 growth at 4.5% has been lower than the initial estimates of the government of 4.9%, which were already conservative growth rates by any estimate. The economy has registered a growth of 4.5% for the period April-December 2013. For the economy to register the originally estimated growth rate of 5.0% for the Q4FY14 must register a growth rate of more than 5.5%, which is highly unlikely given the bleak environment and the lack of investor confidence.

The positive performance which was shown by the agriculture and allied sector and manufacturing and industry sector in Q2FY14 has already been pushed back by the retardation of the manufacturing and construction sub sectors. The long stalled projects need to be revived. Quick approval is needed for clearing investment proposals and support has to be provided for their effective implementation also. Reduction of red tape, ease of availability of credit, encouragement to private and domestic investment, policies to support domestic demand are a few steps that need to be initiated for revival of the Indian economy. The new government and the RBI will have to work in tandem to create an investment friendly environment.

There are signs of the world economy showing improvement. At the global level, the advanced economies have started registering growth. As exporters to these economies the demand of Indian manufactured products is likely to improve. Besides this, the current account deficit has already started contracting as the dependence on imports has been decreasing. There has been firming of the Indian rupee vis-à-vis dollar and FIIs have again started pouring in the money in the Indian financial markets. Along with this moderation in inflation, the domestic economic indicator has shown signs of improvement. Hopefully, with the expected stability in the new government coming to power post the election results further revival of the economy is expected for FY15.

PERFORMANCE & CREDIT RATING SCHEME OF NSIC

CHANNELIZING PRIVATE INVESTMENT BY INTEREST RATE REDUCTION

The micro, small and medium enterprise (MSME) sector is crucial to India's economy. There are 45 million small and medium scale enterprises in various industries out of which 94% units are unregistered. The sector employs 100 million people and accounts for 45% of Indian industrial output and 40% of exports. Fighting against a lack of financial and infrastructural support, the contribution of the sector to India's GDP has been growing consistently. Limited access to infrastructure such as power, water, and roads increases operational costs for these businesses and makes them uncompetitive. These constraints can be largely linked to inadequate access to finance. Most of the micro and small enterprises largely comprise first-generation entrepreneurs, who have had a limited structured training on resource planning, capital management and labour management. As a result, lack of managerial competence often gets reflected in poor book-keeping and a limited knowledge of formal financial institutions, which further inhibits the growth of these enterprises. Most of these smaller firms are fragmented, and as a result, are unable to organize themselves in order to reduce procurement costs from large enterprises or streamline the output supply chain.

Despite the sector's strategic importance in overall industrialization strategy and employment generation, as well as the opportunities that the Indian landscape presents, the MSME sector confronts several challenges. Technological obsolescence and financing problems have been associated with the sector since long. In order to overcome these challenges, the Government of India has introduced a number of schemes for the upliftment of the MSMEs such as "**NSIC Performance and Credit Rating Scheme"**. The scheme is being implemented by National Small Industries Corporation Ltd. acting as the nodal agency in conjunction with stakeholders such as empanelled Credit Rating Agencies, Indian Bankers' Association (IBA) and Small Industry Associations (SIAs).

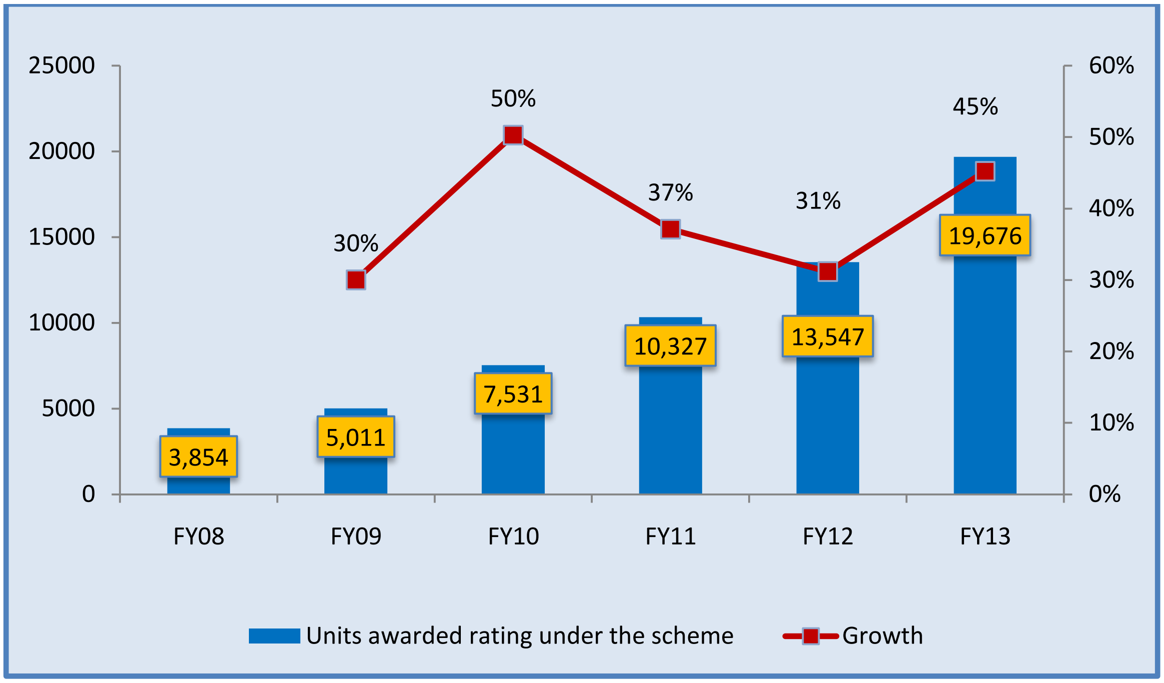
The prime objective of the scheme is:

- To provide better access to credit from banks/ lending institutions
- To enhance the performance of the units by providing better access to raw materials
- Developing greater exposure to the markets.

The sector can grow manifold with the help of adequate financial resources and specialized skill development.

IMPACT STUDY OF THE SCHEME

As per the data available with ONICRA, the number of rated entities has increased from 3584 MSMEs rated in FY08 to 19676 in FY13 growing at a CAGR of 40%.



The increased instance of units being rated is a reflection of the numerous benefits that the units derive under the scheme. The most important benefit is the interest rate reduction that the units get on the facilities availed from the banking and non banking institutions, after the unit is accorded a higher credit rating score by the rating agency.

In order to measure the quantum of the benefit of interest rate reduction and the interest expense savings that the MSMEs enjoy and the potential benefit that they can further enjoy on the interest rate reduction, Onicra conducted a sample study of 1000 of its rated entities between the period of April 2011 to March 2012. It was concluded that the Onicra rated entities enjoyed an interest expense saving of ` 4.73 cr in FY13 for the 1000 rated entities. This implied that for the 19676 units rated in FY13, there has been a potential interest expense saving of ` 93.1 cr.

Benefits of NSIC Performance & Credit Rating Scheme (FY13)

Interest Rate Reduction	**Higher Inclusion of MSMEs**
1.16 percentage points decline in Interest Rate	Growth in no. of rated entities at a CAGR of 40%
Savings of `93.1 Crore for 19676 units	Increased from 3854 in FY08 to 19676 in FY13

The decrease in the interest rate can be attributed to the fact that Onicra has a memorandum of understanding with many of the leading banks and financial institutions, which recognize Onicra-NSIC Performance and Credit Rating

Reports and provide a concession in the interest rate between the range of 0.25% to 1.25% amongst other benefits. Banks provide interest rate reduction to the units which are highly rated and this leads to better profitability position thereby providing further scope for expansion and getting higher access to credit, leading to a positive investment cycle for the MSME unit. The study revealed that Onicra rated entities have benefited by 1.16 percentage points on an average. This translated to an interest rate reduction by 10.7% in FY13 when compared to the interest rates charged in FY12 for the same units studied in the sample.

The ease of availability of debt finance has prompted the MSME entrepreneurs to increase their own investment in the unit. The equity investment (net worth of the enterprise) has increased by 17.6% in the FY13 for the sample units which have enjoyed an average interest rate reduction. The increase in private investment in the MSMEs will go long run for an employment generative and growth oriented environment in the country.

INDUSTRY UPDATE – PACKAGING INDUSTRY

A NEW ROLE PACKED AND DELIVERED

Packaging is a technology that encloses and protects a product in its journey from the factory, to its end use by the consumer including transportation, warehousing, logistics and sale. It assumes the dual role of creator as well as preserver of wealth. Its benefits range from creating employment to lengthening the shelf life of the product to educating the consumers of the product. Key to understanding the packaging need is to understand the product packed inside and its demand. Thus, packaging can take various shapes, sizes, materials (used for packaging) etc. Presently, with the advancement of technology, packaging can be of several types, executing several functions at the same time. Flexible packaging, resealable packaging, tamper-resistant packaging, Radio Frequency Identification (RFID) tags on packaging are a few examples of how the industry has evolved over the years.

The global packaging market stood at USD 799 billion (bn) in 2012 and is estimated to have reached USD 824 bn in 2013. On the other hand, the Indian packaging industry is estimated to be USD 27.6 bn in 2013 and is expected to grow to USD 43.7 bn by 2016. Indian packaging industry has been growing at 12% per annum in the last few years. India's per capita consumption of packaging is 4.3 Kg per person per annum, as aginst 42.0 Kg for Germany and 20.0 Kg for China. This offers immense opportunity to the units operating in the packaging industry. While the global packaging industry is expected to grow at 4-5% per annum till 2018, the Indian packaging industry is expected to grow at a robust growth rate at 14-15% per annum in the next 5 years, backed by increase in retail, changing lifestyle and increasing awareness about health and environment. The growth is induced by an increase in demand from both – industrial and consumer segments.

The Indian packaging industry is predominated by the rigid packaging, which constitutes approx. 80% of the total packaging demand. Rigid packaging is the oldest and most conventional form of packaging in India. Corrugated packaging is an important sug-segment of the rigid packaging accounting for the majority share in the Indian packaging industry. India is currently ranked 15^{th} in the world for its paper and paperboard consumption. End-user wise, food packaging contributes the maximum share in the packaging industry.

The Indian packaging industry is dominated by the unorganized sector. As per an estimate of Indian Institute of Packaging (IIP), there are roughly 22000 units operating in the packaging industry in India and nearly 85% of them are MSMEs. The contribution of the MSMEs to the total revenue of the industry is approx. 50%. More than 600 to 700 types of packaging machinery and equipment are being manufactured by the SMEs in India. India holds a 'backward integration' advantage over the other countries such as China and Thailand, who are emerging as a potential threat to Indian SMEs in the packaging industry. As a result, consolidation is required among smaller players so that this advantage is not lost upon the Indian industry. This would help to increase scale of operations, improve their bargaining power and increase the capital efficiency. Regulatory norms also need to be strengthened specially in the wake of new global entrants in the Indian retail market.

Government policies need to be developed such that they focus on the SMEs in this industry. SMEs hold the key to growth in the packaging industry in India. Hence, any growth in the industry will have to go hand in hand with the growth of SMEs.

ONICRA RATED ENTITIES

PROFILE OF ONICRA RATED MSMEs (For the Period – 1st January 2014 to 31st March 2014)

Geographical Distribution of Ratings

State / Union Territory	Percentage Wise
Andhra Pradesh	4.00
Arunachal Pradesh	0.08
Assam	6.10
Bihar	1.55
Chandigarh	0.04
Chhattisgarh	0.12
Dadra and Nagar Haveli	0.04
Delhi	1.90
Gujarat	4.88
Haryana	1.55
Himachal Pradesh	0.40
Jammu & Kashmir	0.28
Jharkhand	0.63
Karnataka	10.38
Kerala	0.20
Madhya Pradesh	4.64
Maharashtra	4.48
Manipur	1.47
Meghalaya	0.36
Nagaland	0.04
Odisha	2.30
Punjab	2.30
Rajasthan	6.90
Tamil Nadu	13.48
Tripura	0.12
Uttar Pradesh	11.53
Uttarakhand	2.06
West Bengal	18.19
Total	**100.00**

Industry Wise Distribution of Ratings

Industry	Number of Cases	Percentage Wise
Agriculture & Allied Products	186	7.37
Auto & Auto Components	71	2.81
Chemicals	53	2.10
Construction & Engineering	183	7.25
Construction-Materials	136	5.39
Consumer Durables	67	2.66
Containers & Packaging	80	3.17
Educational Services	17	0.67
Electrical Components & Equipments	102	4.04
Food Products	159	6.30
Hospitality	19	0.75
Health Care	31	1.23
Household & Personal Products	155	6.14
Information Technology & Telecommunications	34	1.35
Iron and Steel	75	2.97
Jewellery	73	2.89
Machinery and Equipments	194	7.69
Media & Printing	69	2.73
Metal and Metal Products	41	1.63
Paper & Forest Products	55	2.18
Pharmaceuticals	50	1.98
Plastic & Plastic Products	60	2.38
Power & Energy	24	0.95
Retailing	104	4.12
Services	103	4.08
Textile	232	9.20
Transportation	22	0.87
Others	128	5.07
Total	**2523**	**100.00**

NSIC-ONICRA Rating Definition

NSIC-Onicra Rating reflects Onicra's opinion on the rated entity's performance capability and financial strength. Ratings are assigned as per the scale given below.

Performance Capability	Financial Strength		
	High	Moderate	Low
Highest	SE1A	SE1B	SE1C
High	SE2A	SE2B	SE2C
Moderate	SE3A	SE3B	SE3C
Weak	SE4A	SE4B	SE4C
Poor	SE5A	SE5B	SE5C

Rating Distribution: Onicra Rating

The benefit of getting a MSME unit credit rating goes beyond procuring finance at competitive rates. While drawing business from a client located in dispersed geographies or from large corporate and multinationals, the rating exercise also serves as an independent due diligence activity. Further, since Onicra examines the various financial and performance aspects of the MSME units, it also highlights the shortcoming and areas which requires further improvement. All these benefits create confidence in the client and that has enabled ONICRA to achieve significant growth in the numbers of rating done.

Quarterly Rating Distribution

Rating	Q1FY14 (%)	Q2FY14 (%)	Q3FY14 (%)	Q4FY14 (%)
SE 1A	0.43	0.35	0.10	0.28
SE 1B	0.66	0.82	0.79	0.83
SE 1C	0.38	1.11	0.64	0.59
SE 2A	2.75	3.97	3.02	3.65
SE 2B	19.51	17.91	12.93	14.86
SE 2C	16.24	20.48	19.86	16.53
SE 3A	4.02	3.97	5.10	8.76
SE 3B	29.92	26.25	24.47	28.06
SE 3C	19.37	15.05	18.23	12.68
SE 4A	0.09	0.41	0.89	1.74
SE 4B	4.50	7.70	11.00	9.39
SE 4C	2.13	1.98	2.97	2.62
Total	**100.00**	**100.00**	**100.00**	**100.00**

Quarterly Geographical Distribution

State / Union Territory	Q1FY14 (%)	Q2FY14 (%)	Q3FY14 (%)	Q4FY14 (%)
Andhra Pradesh	8.81	9.51	7.08	4.00
Arunachal Pradesh	0.09	0.00	0.00	0.08
Assam	5.82	5.31	6.79	6.10
Bihar	3.88	2.51	1.73	1.55
Chandigarh	0.14	0.00	0.20	0.04
Chhattisgarh	1.33	0.99	0.25	0.12
Dadra and Nagar Haveli	0.00	0.00	0.00	0.04
Delhi	1.94	2.16	1.09	1.90
Gujarat	3.41	4.67	6.09	4.88
Haryana	2.13	1.11	0.94	1.55
Himachal Pradesh	0.19	0.41	0.15	0.40
Jammu & Kashmir	0.00	0.00	0.30	0.28
Jharkhand	0.71	0.58	0.64	0.63
Karnataka	8.57	9.39	9.36	10.38
Kerala	0.00	0.23	0.15	0.20
Madhya Pradesh	4.07	5.19	5.10	4.64
Maharashtra	4.69	7.00	4.41	4.48
Manipur	0.09	0.00	0.00	1.47
Meghalaya	0.38	1.05	0.25	0.36
Nagaland	0.24	0.00	0.00	0.04
Odisha	2.32	1.87	1.68	2.30
Punjab	3.65	3.33	3.52	2.30
Rajasthan	3.93	5.95	7.97	6.90
Tamil Nadu	12.74	9.04	10.10	13.48
Tripura	0.14	0.00	0.00	0.12
Uttar Pradesh	17.76	15.05	11.44	11.53
Uttarakhand	2.04	1.52	3.47	2.06
West Bengal	10.93	13.13	17.29	18.19
Total	**100.00**	**100.00**	**100.00**	**100.00**

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