January–March 2015

SME INSIGHTS

A Newsletter from ONICRA

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ONICRA Credit Rating Agency is one of the leading performance and credit rating agencies in India. It provides ratings, risk assessment and analytical solutions to MSMEs and corporate. Third party performance and credit rating and assessment help to create 'trust' between players in markets that underpins transactions.

ONICRA plays a central and critical role in collecting and analysing a variety of financial, operational, industry and market information, then synthesising that information and providing autonomous and reliable assessments of entities, thereby providing stakeholders with an important input for their decision-making process.

To realise our goal, we have committed ourselves to providing stakeholders with objective, timely, independent and forward-looking performance and credit opinions. The foundation of this dedication is embedded in several core principles – objectivity, quality, independence, integrity and transparency.

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The Ministry of MSME through NSIC has signed a memorandum of understanding (MoU) with ONICRA to provide performance and credit rating services to MSMEs. Rating creates awareness about strengths, weaknesses, opportunities and threats and assists in identifying areas of improvement for MSMEs. Under this scheme, MSME pays 25.00% of the rating fee to ONICRA, while the remaining 75.00% is paid by NSIC as subsidy.

ONICRA has rated around 37,215 MSMEs since 2005.

NSIC scheme features

- 75.00% subsidy on NSIC-ONICRA Rating Fees
- A government of India initiative with NSIC
- Turnover based fee structure
- Rating encompasses performance and credit factors

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
- A 'holistic health check-up of a 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

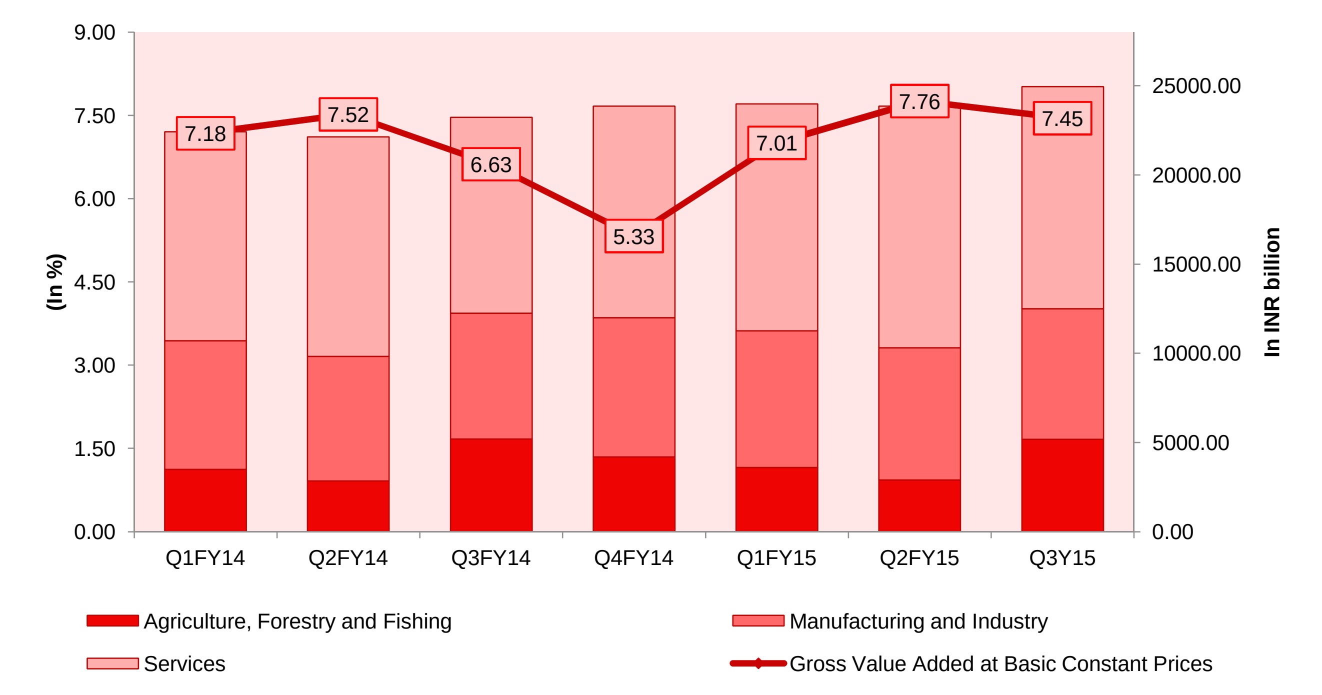
Executive Summary

India's gross domestic product (GDP), which has shown a below 5.00% growth rate at factor cost for the last two financial years, has suddenly attained an estimated growth rate of 7.40% for the financial year 2014–2015 (FY15). This acceleration in the growth rate is not accompanied by the introduction of new calculation methodology of GDP alone but is also supported by favourable factors at macro-economic level during the period.

Specifically, in the last 11 months of the current fiscal, the incumbent government has tried to promote investment activities in the country with better foreign trade relations. During the period, the favourable factors such as positive performance of service sector in India, contraction in value of imports due to decline in global crude oil prices leading to narrowed trade deficit, decrease in inflation and interest rates have supported the growth in the economy. Consequently, the much needed foreign capital inflow has bolstered, which is indicated through 30.00% growth in Indian stock markets during April 2014–February 2015.

Economic Growth

Figure 1. Composition and Growth Rate of GVA



Source: *Central Statistics Office*
Note: *LHS-growth rate of GVA; RHS-composition of GVA*

Table 1: Composition of Sub-Sectors of GVA (in %)

Sectors	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15
Agriculture, Forestry and Fishing	**15.60**	**12.92**	**22.45**	**17.65**	**15.09**	**12.23**	**20.82**
Manufacturing and Industry	**32.17**	**31.53**	**30.30**	**32.71**	**31.90**	**31.00**	**29.29**
Mining and Quarrying	3.01	2.77	2.93	3.33	2.96	2.63	2.81
Manufacturing	18.70	18.25	16.86	18.54	18.56	17.88	16.35
Electricity, Gas, Water Supply and Other Utility	2.34	2.40	2.27	2.24	2.41	2.42	2.32
Construction	8.13	8.11	8.25	8.60	7.98	8.07	7.81
Services	**52.22**	**55.55**	**47.25**	**49.64**	**53.01**	**56.77**	**49.90**
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	18.13	18.90	18.68	19.32	18.54	19.06	18.63
Financial, Real Estate and Professional Services	21.42	22.99	16.80	17.89	22.40	24.26	18.12
Public Administration, Defence and Other Services	12.67	13.67	11.77	12.43	12.07	13.44	13.14
Gross Value Added at Basic Constant Prices	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Table 2: Growth Rate of Sub-Sectors of GVA (in %)

Sectors	Q1 FY14	Q2 FY14	Q3 FY14	Q4 FY14	Q1 FY15	Q2 FY15	Q3 FY15
Agriculture, Forestry and Fishing	**2.68**	**3.61**	**3.80**	**4.37**	**3.47**	**2.00**	**J0.36**
Manufacturing and Industry	**4.79**	**3.99**	**5.02**	**4.32**	**6.12**	**5.96**	**3.85**
Mining and Quarrying	0.83	4.53	4.18	11.48	5.11	2.37	2.91
Manufacturing	7.23	3.80	5.93	4.41	6.25	5.60	4.21
Electricity, Gas, Water Supply and Other Utility	2.76	6.50	3.91	5.91	10.09	8.69	10.13
Construction	1.53	3.52	3.81	1.22	5.05	7.20	1.74
Services	**10.18**	**10.63**	**9.10**	**6.36**	**8.61**	**10.13**	**13.48**
Trade, Hotels, Transport, Communication and Services Related to Broadcasting	10.28	11.86	12.38	9.94	9.44	8.71	7.19
Financial, Real Estate and Professional Services	7.72	11.92	5.68	5.50	11.86	13.75	15.91
Public Administration, Defence and Other Services	14.43	6.94	9.10	2.38	1.94	5.98	19.97
Gross Value Added at Basic Constant Prices	**7.18**	**7.52**	**6.63**	**5.33**	**7.01**	**7.76**	**7.45**

Calculation of India GDP growth rate, since third quarter (Q3) of FY15, has been revised with the introduction of new methodology as well as the change in base year. The Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation (MoSPI), has changed the base year from 2004–05 to 2011–12 and the GDP calculation through Gross Value Addition (GVA). The data accounted has also been revised for FY13, FY14 and the first two quarters of FY15.

As per the data released by CSO for FY15, under the new calculation methodology, India GDP growth rate is estimated at 7.40% over 6.90% in FY14. Similarly, after the base year revision to FY12, the GDP growth rate for Q3 FY15 is recorded at 7.50%, 8.20% for Q2 FY15 and 6.50% for Q1 FY15.

The real GVA or GVA at basic constant prices is likely to attain a growth rate of 7.50% in FY15 against 6.60% in FY14. Again, in this quarter, the growth in the country's GVA has been attributed to the outstanding performance of 'Services' sector, which has shown a robust growth rate of 13.50% in Q3 FY15 vis-à-vis 9.10% over the same period in FY14. 'Manufacturing and Industry' sector grew at 3.90% in Q3 FY15 against 5.00% in Q3 FY14. 'Agriculture, Forestry and Fishing' sector has contracted by 0.40% in Q3 FY15 as compared to a growth rate of 3.80% in Q3 FY14.

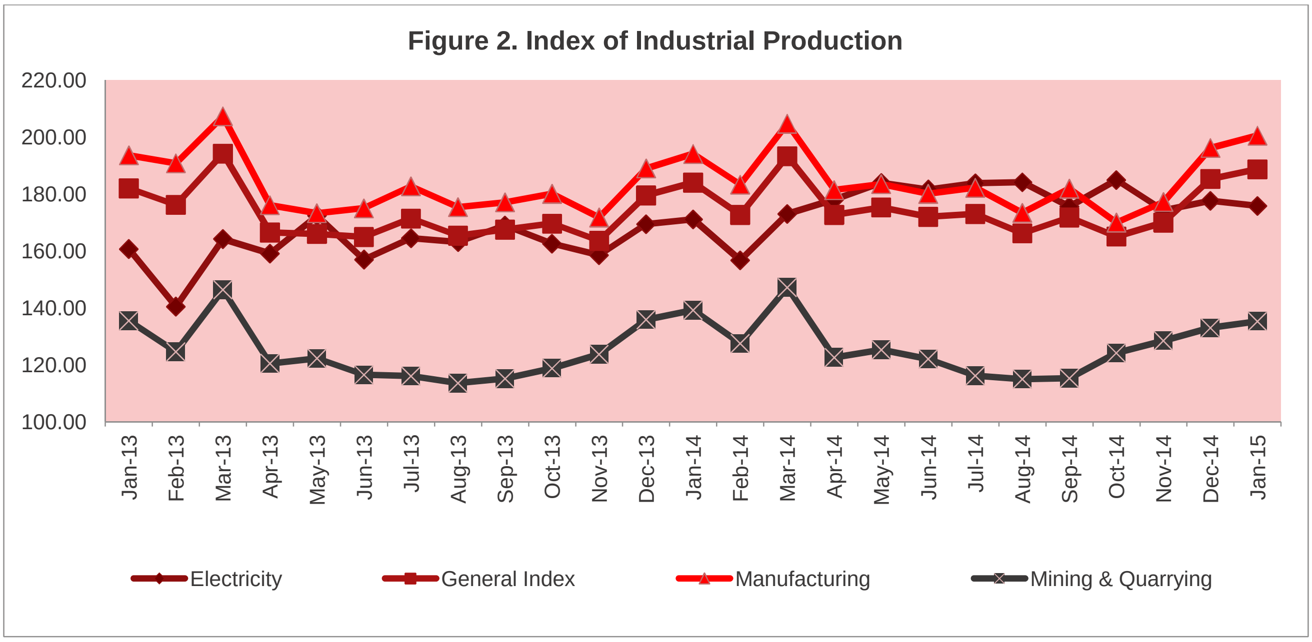
Services

The 'Services' sector, with a major proportion of around 50.00% to GVA, has shown its highest growth rate at 13.50% in Q3 FY15 compared to 9.10% in Q3 FY14. The growth has been attributed mainly to the 'Public Administration, Defence and Other Services' sub-sector. 'Public Administration, Defence and Other Services' sub-sector has recorded a growth rate of 20.00% in Q3 FY15 vis-à-vis 9.10% in the corresponding period of last fiscal.

Similarly, the 'Financial, Real Estate and Professional Services' sub-sector has posted an impressive growth rate of 15.90% in Q3 FY15 compared to 5.70% in Q3 FY14. The acceleration has been attributed to the registered growth rate in the real estate and professional services as well as the growth in aggregate deposit and bank credit during the quarter.

'Trade, Hotels, Transport, Communication and Services Related to Broadcasting' sub-sector, has decelerated at 7.20% in Q3 FY15 vis-à-vis 12.40% in the corresponding period of last financial year. Decline in the sales of commercial vehicles and lower sales tax collection have reduced the growth rate in the sub-sector during the period. Notwithstanding, there has been an increase in the growth rate of cargo handled at major sea ports as well as cargo and passengers handled by civil aviation during the third quarter of this fiscal.

Manufacturing and Industry



After a stagnancy of 8 months in the growth rate, the Index of Industrial Production (IIP) has shown an upwards movement between December 2014 and January 2015. Since October 2014, 'General Index', 'Manufacturing' and 'Mining and Quarrying' sub-sectors have been increasing dramatically; however, 'Electricity' has declined in the month of November 2014 and increased marginally in December 2014 before declining in January 2015.

Table 3: Index of Industrial Production

Change in Index of Industrial Production (In %)				
Industry Group	**FY13**	**FY14**	**January-FY14**	**January-FY15**
Electricity	3.98	6.10	6.47	2.75
General Index	1.14	–0.10	1.10	2.55
Manufacturing	1.29	–0.77	0.26	3.30
Mining and Quarrying	–2.34	–0.60	2.73	–2.80

The 'Manufacturing and Industry' sector has shown a decline in the growth rate at 3.80% in Q3 FY15 vis-à-vis 5.00% in Q3 FY14. Major sub-sectors behind this deceleration are 'Construction' and 'Manufacturing' along with 'Mining and Quarrying' showing lower growth rate during Q3 FY15 compared to Q3 FY14. The deceleration in manufacturing sector was contributed by weak domestic and global demand. However, 'Electricity, Gas, Water Supply and Other Utility' sub-sector has shown a robust performance and registered a growth rate of 10.10% in Q3 FY15 vis-à-vis 3.90% in Q3 FY14.

Agriculture, Forestry and Fishing

Due to around 12.00% deficiency in monsoon rainfall during FY15, the 'Agriculture, Forestry and Fishing' sector has shown a sharp decline in its growth rate at –0.40% in Q3 FY15, which is 3.40% lower than the growth rate of the same period in last financial year. As per the major crop production data on second advance estimates released by the Department of Agriculture and Cooperation, in FY15 only sugarcane and wheat have shown a growth in production at 2.61% and 0.17%, respectively, over FY14. The growth rate in the production of oilseeds and pulses has decelerated considerably during the period.

Table 4: Major Crops Production

Production of Major Crops (Million Tonne)			
Crops	**FY14 (2nd Advance Estimates)**	**FY15 (2nd Advance Estimates)**	**Growth (In %)**
Rice	106.19	103.04	–.97
Wheat	95.60	95.76	0.17
Total Pulses	19.77	18.43	–6.78
Total Food grains	263.20	257.07	–2.33
Total Oilseeds	32.98	29.83	–9.55
Sugarcane	345.92	354.95	2.61
Cotton@	35.60	35.15	–1.26

Source: *Directorate of Economics and Statistics, Department of Agriculture and Cooperation*
Note: *@ Production in Million bales of 170 kg each*

Consumption Drivers

Table 5: Credit Deployment Growth Rate

Particulars	Growth in Q3 FY14 (In %)	Growth in Q3 FY15 (In %)
Food Products and Beverages	–9.45	5.68
Apparel	13.36	18.08
Consumer Goods	–6.12	–6.65
Deployment of Bank Credit to Housing*	18.33	16.18

Source: *RBI*
Note: **Including priority sector housing*

A robust growth rate was registered in consumption expenditure on food products and beverages at 5.68% in Q3 FY15 over –9.45% in Q3 FY14, which has made it top consumption driver amongst other sectors. Also, spending on apparel has also increased during the period at 18.08% growth rate compared to 13.36% in Q3 FY14. On the other side, consumption expenditure on consumer goods remained low at a negative growth rate and deployment of bank credit to housing has also shown a decline in the growth rate during the period.

Investment Drivers

Table 6: Gross Bank Credit Deployment

Particulars	Share towards Deployment of Gross Bank Credit as on 23rd January, 2015 (In %)	YoY Growth, January (In %)	
		2014	2015
Infrastructure	34.83	22.20	10.42
Basic Metal and Metal Product	14.39	20.68	7.08
Textiles	7.71	19.76	1.54
Food Processing	6.09	44.71	12.76
Chemical and Chemical Products	5.90	17.55	J1.00
All Engineering	5.71	18.72	5.74
Construction	2.82	24.92	19.65
Gems and Jewellery	2.69	26.17	0.60
Vehicles, Vehicle Parts and Transport Equipment	2.63	16.12	2.07
Cement and Cement Products	2.17	25.47	7.40
Petroleum, Coal Products and Nuclear Fuels	2.14	12.90	J4.47
Rubber, Plastic and their Products	1.44	18.86	2.05
Mining and Quarrying (incl. Coal)	1.40	11.36	0.92
Paper and Paper Products	1.34	21.99	6.23
Beverage and Tobacco	0.74	9.99	13.71
Leather and Leather Products	0.40	22.56	4.42
Wood and Wood Products	0.37	34.63	3.87
Glass and Glassware	0.34	28.15	1.54
Other Industries	6.90	J4.62	0.46
Industries	100.00	19.48	6.56

Source: *The Reserve Bank of India*

There has been a significant decline in the growth rate of the deployment of gross bank credit in January 2015 to 6.56% from 19.48% in January 2014. Major industries wherein the contraction in the bank credit has been noted with negative growth rate are ‘Petroleum, Coal Products and Nuclear Fuels’ and ‘Chemicals and Chemical Products’. A sharp decline has also been seen in the growth rate of Infrastructure from 22.20% to 10.42% and ‘Basic Metal and Metal Product’ from 20.70% to 7.00%.

With a proportion of 34.83% in the total deployment of bank credit, the ‘Infrastructure’ industry has remained the top most investment options among all the industries in January 2015.The outstanding amount of deployment in the industry has reached at around INR 9,012.54 billion as on January 23, 2015, compared to around INR 8,161.86 trillion in the same period of corresponding year. Also, the ‘Basic Metal and Metal Product’ industry, which has been the second largest investment driver, has shown around INR 3,724.92 billion bank credit during the period with an increment of INR 246.35 billion over January 2014.

With a decline by INR 25.9 billion, the credit deployment in the ‘Petroleum, Coal Products and Nuclear Fuels’ industry has reduced to INR 553.87 billion in January 2015 vis-à-vis INR 579.77 billion in January 2014. Similarly, the growth rate in the deployment of gross bank credit in the ‘Chemicals and Chemical Products’ industry has turned into negative at –1.00% by the reduction of funds by INR 15.41 billion in January 2015.

Furthermore, the ‘Construction’ industry has shown the highest growth rate at 19.65% followed by ‘Beverage and Tobacco’ at 13.71% and ‘Food Processing’ at 12.76% in January 2015. On the other side, ‘Glass and Glassware’ industry has held the lowest proportion of the deployment of gross bank credit at 0.34%.

Export-Import

Table 7: Export-Import Trend

Month	Export (INR Billion)	Growth in Export (YoY, In %)	Import (INR Billion)	Growth in Import (YoY, In %)	Trade Balance (INR Billion)
Feb-14	1540.80	–2.17	2028.60	–17.90	–487.80
Mar-14	1774.20	–4.15	2404.80	–2.62	–630.60
Apr-14	1537.80	6.08	2143.20	–14.85	–605.40
May-14	1679.40	14.24	2353.80	–12.12	–674.40
Jun-14	1581.65	10.85	2284.27	5.65	–702.62
Jul-14	1665.28	7.43	2399.71	4.97	–734.43
Aug-14	1641.63	–1.39	2301.65	–1.65	–660.02
Sep-14	1759.19	5.92	2626.36	27.14	–867.17
Oct-14	1600.66	–2.17	2420.03	6.65	–819.37
Nov-14	1601.87	8.48	2642.27	30.17	–1040.40
Dec-14	1634.00	–2.46	2185.85	–3.48	–551.85
Jan-15	1486.17	–10.97	2004.02	–11.18	–517.85
Feb-15	1336.62	–15.28	1761.39	–15.92	–424.77

Source: *Ministry of Commerce and Industry*

After 17 months, India's trade deficit has reached its lowest level at INR 424.77 billion in February 2015, which is 17.88% lower than the deficit in February 2014. This has been contributed by an over 55.00% decline in oil imports. The trade deficit for April–February in FY15 is estimated at INR 7,634.90 billion compared to INR 7,521.09 billion in the same period of last fiscal. Consequently, the current account deficit (CAD) as a percentage of GDP has narrowed to around 1.60% in Q3 FY15 compared to around 2.00% in Q3 FY14.

During the last two financial years, there has been the biggest monthly fall in the merchandise export at around 15.28% in February 2015 over February 2014. This deceleration in exports during the month can be attributed to the contraction in global demand, lowering of prices of metal and commodities as well as volatility in currencies. The cumulative value of exports in April–February in FY15 has reached INR 17,474.51 billion, which is significantly short of the Centre's full-year target of INR 20,740 billion.

Similarly, imports have gone down by 15.92% in February 2015, which is the biggest fall in FY15. The contraction in imports during the month has been attributed to the decline in oil imports by 55.49% year on year (YoY) in February 2015 due to the slide in global crude oil prices. The gold import, however, has risen by around 48.00% during the period.

Interest Rate

Table 8: RBI Rate Changes

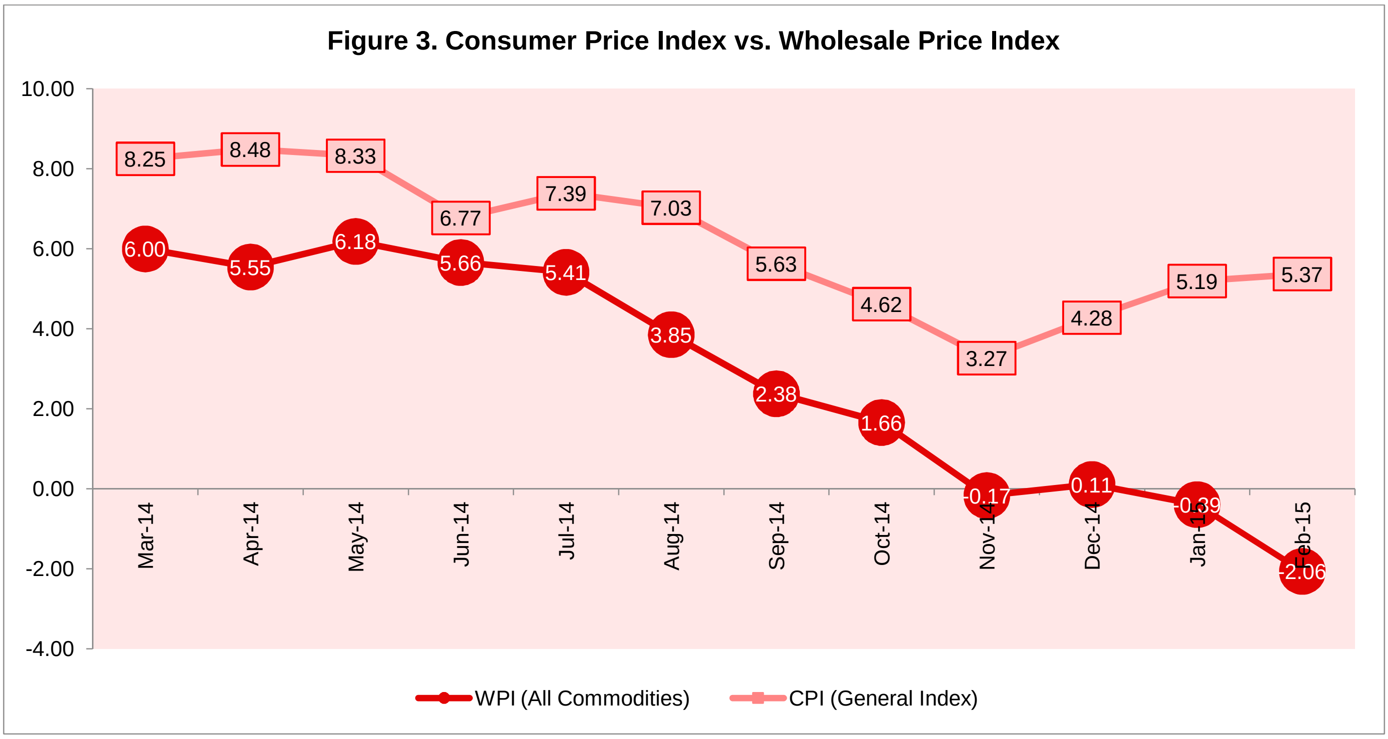
Item/Week Ended	FY15		
	December 2014	February 2015	March 2015
Cash Reserve Ratio (in %)	4.00	4.00	4.00
Repo Rate (in %)	8.00	7.75	7.50
Reverse Repo Rate (in %)	7.00	6.75	6.50
Marginal Standing Facility (MSF) (in %)	9.00	8.75	8.50
Statutory Liquidity Ratio	22.00	21.5	21.5

Source: *The Reserve Bank of India*

Given the low capacity utilisation and weak indicators of production and credit off-take, the Reserve bank of India (RBI) reduced policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points (bps) from 7.75% to 7.50%. Consequently, the reverse repo rate under the LAF adjusted to 6.50%, and the marginal standing facility (MSF) rate to 8.50% with immediate effect. Cash reserve ratio, however, remained unchanged at 4.00%. This move has come due to low inflation and optimistic budget announcements.

Inflation

The wholesale price index (WPI) inflation declined to –2.06% from 5.03% in February 2014, being the lowest in last decade. The consumer price index (CPI) inflation has also declined to 4.10% in February 2015. The decline in both CPI and WPI inflation has resulted in cut in repo rate by 25 bps.



Source: *RBI*

Note: **CPI for February 2015 is provisional*

WPI has shown a continuous decline since May 2014 except in December 2014. Inflation of power and fuel group contracted by 10.69% in January 2015 as the prices of petroleum products came down after global crude oil prices plummeted sharply.

Fuelled by the southwards price movement of Manganese Ore, Phosphorite, Barites and Sillimanite the minerals inflation has declined by 13.75% helping WPI to go down.

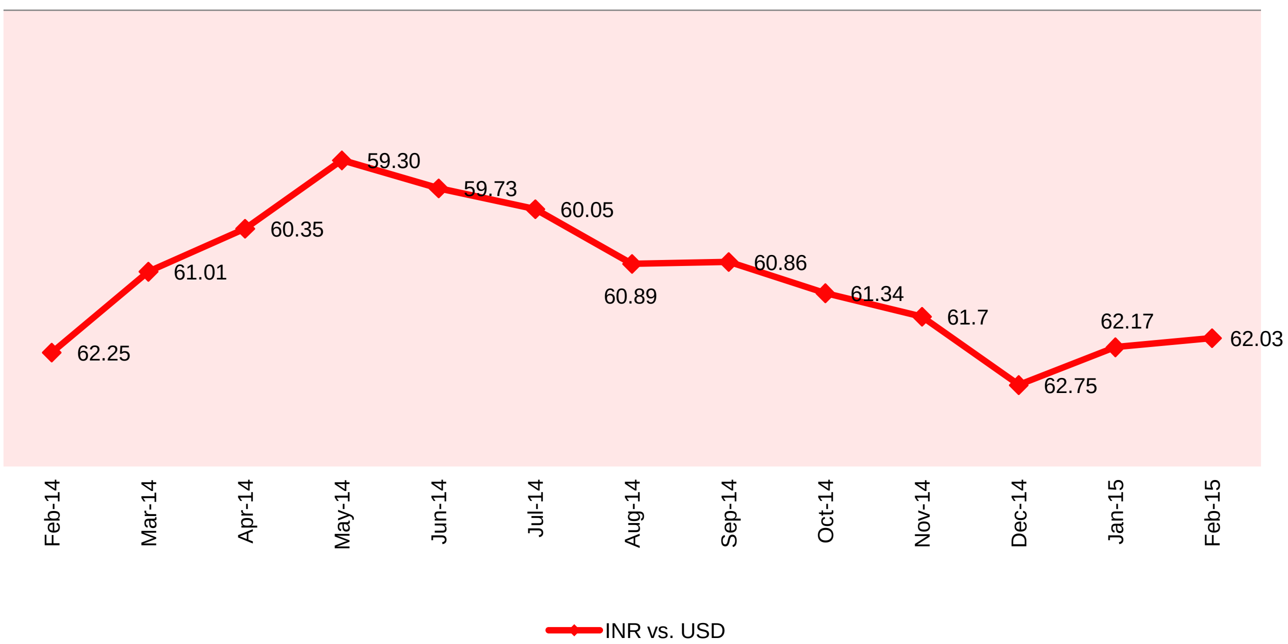
CPI has shown an increasing trend in December 2014. The commodities that are digging deep in the pockets of consumer include Milk and Products, Vegetables, Fruits, Pulses and Products and Spices. Prices of the aforesaid commodities have inflated by more than 9.00% in February 2015. The commodities that are giving a sigh of relief to the common man include Egg, Sugar and Confectionery and Transport and Communication.

Financial Market

Currency Market

After witnessing a strong rally during February–May 2014 period, INR faced a decreasing trend against USD till December 2014. With a wide fluctuation during the year, the currency reached at its highest level around 59.30/USD in May and touched the lowest in December 2014 around 62.75/USD. INR bounced back against USD in February 2015 and hovered at a level 62.03/USD.

Figure 4. Exchange Rate Movement



***Source:** RBI*
***Note:** Units on y-axis are in reverse scale*

The widened trade deficit of India and the stronger recovery in the US economy have been the major factors behind the rupee depreciation during the second half of 2014. The huge dollar demand, to import crude oil, and the winding down of US Federal Reserve's monetary stimulus programme have added to rupee depreciation during the May–December 2014 period.

On the other side, the persistent selling of weakened dollars by banks and exporters in the overseas market in February 2015 has appreciated Indian rupee.

Equity Market

Figure 5. Sensex vs. Nifty

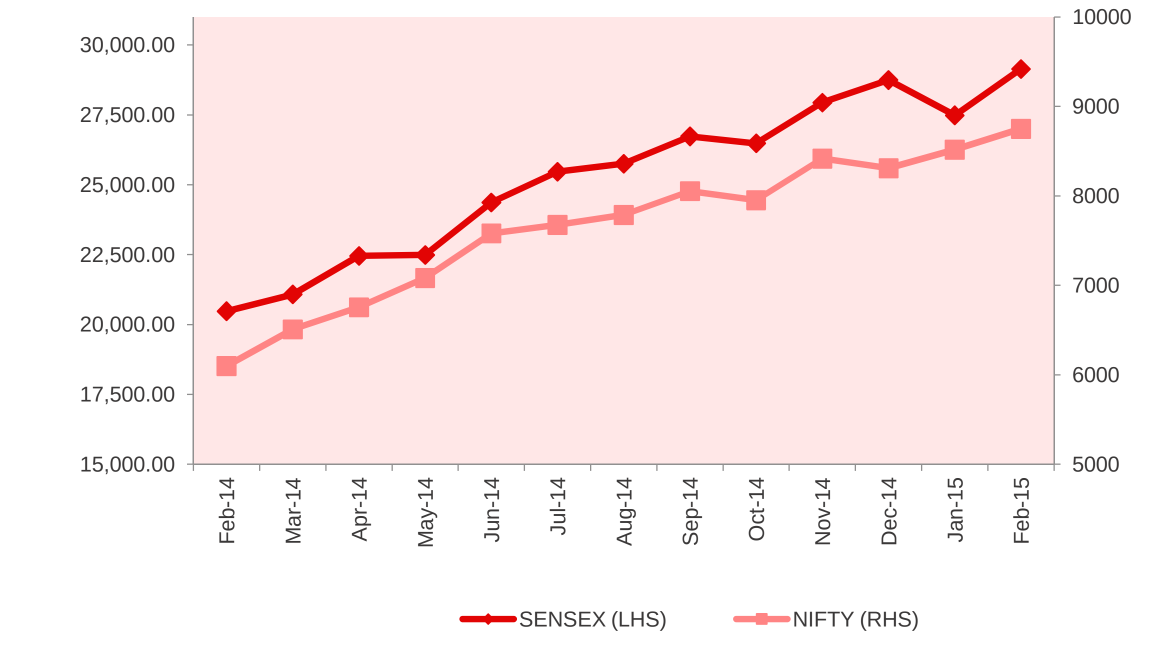
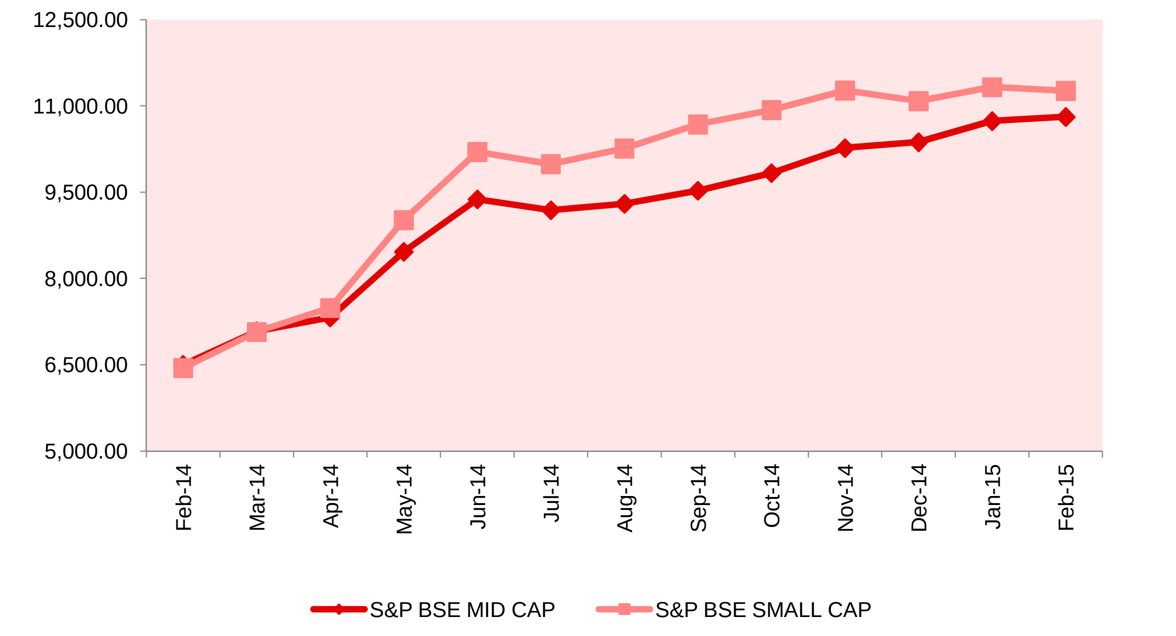
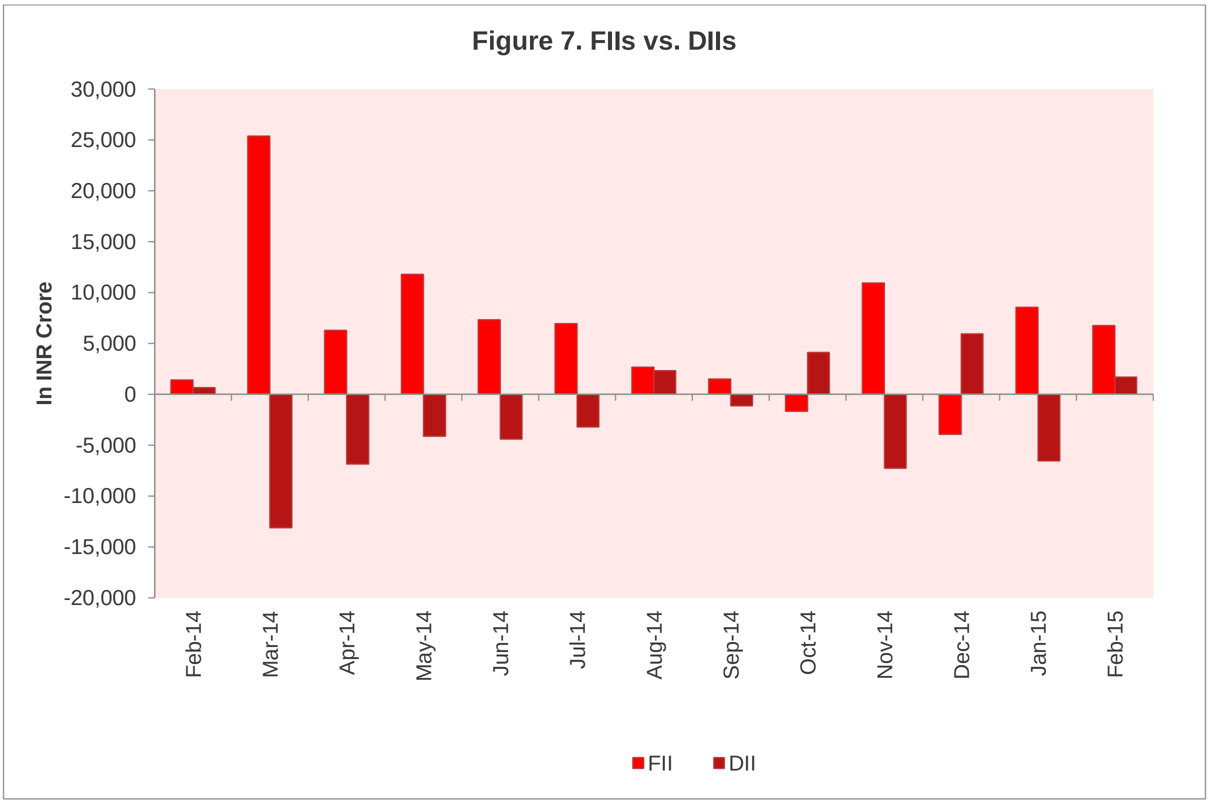


Figure 6. SML CAP vs. MID CAP Index



Source: *BSE and NSE*

Foreign Institutional Investors (FIIs) vs. Domestic Institutional Investors (DIIs)



Source: *www.moneycontrol.com*

With the political stability in the country since May 2014, the Indian equity market has been the most attractive investment destination amongst all international indices. Consequently, with a regular inflow of Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs) in the Indian capital market, NSE Nifty has increased by around 43.00% and BSE Sensex by 39.00% from February 2014 to February 2015. During the period, Sensex has touched an all-time-high of 29,681.77 on January 29, 2015 and Nifty has hit lifetime-high of 8,901.85 on February 28, 2015.

The BSE Midcap index climbed to a record high in February 2015, while the BSE Small cap index touched its highest level in nearly seven years and has outperformed the benchmark index BSE Sensex because of their superior growth on both the top and bottom lines. The decision taken by government on key reforms, continuous money flow from the overseas investors and an impressive first half result has led the rally.

With numerous reform measures taken by the new government, the FIIs have been showing their interest and betting on the Indian markets. The FIIs have made net purchases of around INR 113.50 billion in the market during the months of December 2014, January 2015 and February 2015, whereas DIIs have done a net purchase of INR 17.72 billion in month of February 2015.

Outlook

The Central Statistical Office (CSO) has recently changed the base year for calculation of GDP to FY12 from the earlier FY05. This has resulted in an increase in the official real GDP growth number for FY14 to 6.90% (at market prices) from 4.70% (at factor costs). This has helped to produce GDP data in line with international standards.

Table 9: Projections for Economic Growth of India

	FY16 (YoY, in %)
Economic Survey of India	8.10–8.50
International Monetary Fund	7.50
Organisation for Economic Co-operation and Development (OECD)	7.70
Asian Development Bank	7.80

In order to achieve the estimated growth rate, government will have to increase its spending over social and physical infrastructure, introduce tax reforms, clean up the banking system to free funds for infrastructure and reduce structural barriers for job creation through labour reforms. Also, with allocation of coal blocks through auction, Mines and Minerals (Development and Regulation) (Amendment) Act, 2015, spectrum auction and land acquisition bill, the economic development of the country is possible.

MSMES IN THE WAKE OF NEW GOVERNMENT POLICIES

On April 01, 2015 the Government of India (GoI) released **New Foreign Trade Policy** (NFTP) that shall run till March 31, 2020, to boost export sector to meet the 900 billion US Dollar (USDF) **export target** by FY 20019–20. To meet the challenge, the government is bettering trade ecosystem by promoting **ease of doing business** by simplifying administrative procedures. The approach is to push various goods and services up the **value chain**. Furthering NFTP, **Towns of Export Excellence** (TEE) is an endeavour under which towns with manufacturing capacity worth INR 7.5 billion and above shall be recognised as TEEs. To mention, the production capacity limit for handloom, handicraft, agriculture and fisheries is decided at INR 1.5 billion. Along with financial assistance, to encourage units in TEE, duty-free import of machine and equipment under **Export Promotion Capital Goods** (EPCG) scheme is allowed.

NFTP is conspicuously aligned to Prime Minister's '**Make in India: Zero Defect, Zero Effect (ZED)**' campaign, which visions India into becoming a manufacturing hub by facilitating Indian MSMEs to grow to be global suppliers. The manufacturing industry's sectors expected to primarily drive the programme are engineering, electronics and pharmaceutical. Labour intensive sectors, viz. leather, textile, gems and jewellery, agriculture, plantation crops, marine products and iron ore exports, shall be promoted notably while the drive as well. As the burden to meet the export target clearly lies on the shoulders of manufacturing industry, GoI has identified **108 MSME clusters** as **MSME manufacturing industry** alone makes 45% of the total manufacturing output and 40% of exports. About 95% of total industrial units in the country are MSMEs that manufacture 8,000 products catering domestic as well as international market.

Niryat Bandhu Scheme (NBS), a scheme by the **Directorate General of Foreign Trade** (DGFT) to mentor first generation export entrepreneurs, has been entirely repositioned to encourage young turks embark on international businesses. Export-oriented start-ups shall be invested with time and knowledge and sensitised towards legal and organised entrepreneurships with the help of **Export Promotion Councils** (EPS). DGFT has become the first GoI office to incorporate digital signatures under the ongoing campaign '**Digital India**', which in fact is heavily promoting digital literacy and digital existence of MSMEs especially in rural India. A pan-India **national optical fibre network** (NOFN), with a budget of 1 trillion Indian national rupees (INR) allocated towards it, shall be laid providing digital platform to individuals and MSMEs, especially at grass root level, to emerge and move up the value chain. 'Digital India' shall roll out opportunities to various sectors, viz. healthcare, education, financial services, etc. to thaw the rural-urban divide and uphold small scale businesses.

By way of various policies and schemes, GoI intends to leverage financial solvency and technological and capacity up-gradation to MSMEs to mature into **export-oriented units** (EOUs), thereby contributing into the nation's growth. While 'Make in India' is to drive the manufacturing industry, GoI ensures zero compromise on quality through '**ZED Maturity Model**' that comes with its specific parameters each in-turn with specific categories benchmarking quality standards. GoI aims to guarantee '**Zero Defect**' in goods and services augmenting global competitiveness and simultaneously being considerate about waste and discharge treatment ensuring '**Zero Effect**' on environment. The scaffold of all GoI policies and schemes shall provide the much needed breakthrough to Indian MSME, which shall positively share the trade and industry burden to mark their presence in macro-economic picture of the nation.

ENHANCING FINANCE ACCESS TO MSMES THROUGH MICRO UNITS DEVELOPMENT AND REFINANCE AGENCY (MUDRA) BANK

MSME Growth is Handicapped

With 5.77 crore MSME units in India, MSME sector has grown at a stable pace of 4.50% in the last 5 years. While large corporate and business entities have a role to play, enterprises in the informal sector generate maximum employment. There are some 5.77 crore small business units, mostly individual proprietorship, which run small manufacturing, trading or service businesses. 62.00% of these are owned by SC/ST/OBC. However, 4.00% of 5.77 crore small business units in India have access to institutional finance, leaving many to rely on informal lenders. Industry experts estimate that demand for loans from the sector outstrips supply by more than INR 4,880 billion.

The major hindrance in the expansion of MSMEs is the unavailability of sufficient and timely funds to finance their growth plans. MSMEs are regarded by lenders as high-risk borrowers because of insufficient assets and low capitalisation, vulnerability to market fluctuations and high-mortality rates. Information asymmetry arising from MSMEs' lack of accounting records, inadequate financial statements or business plans also makes it difficult for lenders to assess the creditworthiness of potential MSME proposals. Considering the risk attached, it is not always possible for an entrepreneur to satisfy all requirements and conditions the bank might pose.

Indian businesses and entrepreneurs are provided credit for running business by a plethora of sources. It ranges from foreign banks (FBs), public sector banks (PSBs), private sector banks, cooperative banks, non-bank financial companies (NBFCs), un-incorporated bodies (UIBs) and relatives/friends, etc. The form and size of the organisation decides the source. If it is a proprietorship or partnership it uses non-banking channels compared to a large public limited listed company, which uses PSBs and/or FBs.

Enhanced Credit Access by MUDRA Bank

The new Government has worked towards increasing the access to credit by setting up of MUDRA Bank, which would be responsible for regulating and refinancing all micro-finance institutions, which are in the business of lending to micro and small business entities engaged in manufacturing, trading and services activities amongst others. MUDRA Bank will refinance Micro-Finance Institutions (MFIs) through a Pradhan Mantri Mudra Yojana. In lending, priority will be given to SC/ST enterprises.

Key responsibilities of MUDRA Bank

- Laying down policy guidelines for micro/small enterprise financing business
- Registration, regulation and accreditation/rating of MFI entities
- Laying down responsible financing practices to prevent indebtedness and ensure proper client protection principles and methods of recovery
- Development of standardised set of covenants governing last mile lending to micro/small enterprises
- Promoting right technology solutions for the last mile
- Formulating and running a Credit Guarantee scheme for providing guarantees to loans that are being extended to micro enterprises

A sum of INR 200 billion would be allocated to MUDRA Bank from the money available from shortfalls of priority sector lending for creating a refinance fund to provide refinance to the MFIs. Another INR 30 billion would be provided to the Bank from the budget to create a Credit Guarantee corpus for guaranteeing loans being provided to the micro enterprises.

With the implementation of MUDRA bank, the access to low cost funding to small business would increase. Since small businesses are often cut off from banking system because of limited branch presence, MUDRA Bank will partner with local coordinators and provide finance to 'Last Mile Financiers'of small/micro businesses. The agency will also lay down responsible financing practices to ward off over-indebtedness and ensure proper client protection principles and methods of recovery.

ONICRA RATED ENTITIES

Profile of ONICRA-Rated MSMEs (For the Period from January 01, 2015 to March 31, 2015)

The benefit of getting an MSME unit credit rated 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, ONICRA examines MSME units based on various parameters and provides an insight on the shortcomings and highlight areas that require further improvement. Large number of SMEs have benefitted on account of the ratings assigned, which has also led ONICRA to achieve a significant growth in the number of ratings assigned.

Figure 8. Industry-Wise Distribution of Rating Assigned

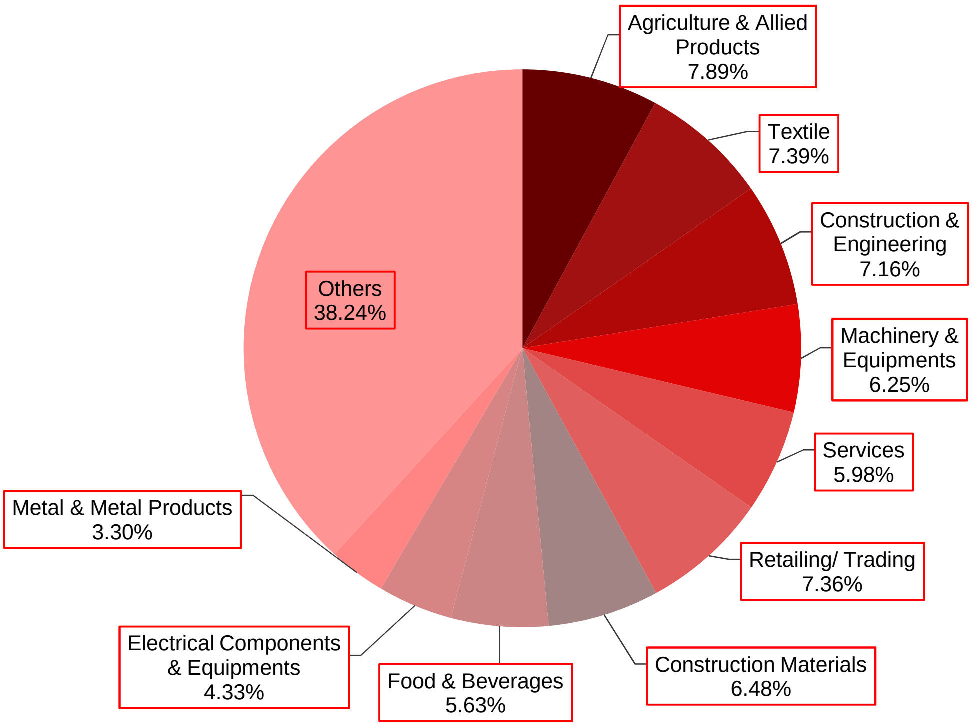


Table 10: Rating Wise Distributions

Rating	Q1 FY15 (In %)	Q2 FY15 (In %)	Q3 FY15 (In %)	Q4 FY15 (In %)
SE 1A	0.22	0.12	0.00	0.11
SE 1B	0.73	0.67	0.27	0.34
SE 1C	0.73	0.70	0.41	0.27
SE 2A	3.34	1.45	1.55	1.38
SE 2B	14.59	10.60	8.49	8.31
SE 2C	15.14	12.63	13.42	13.37
SE 3A	7.41	4.81	5.43	4.67
SE 3B	30.88	34.22	37.17	41.38
SE 3C	12.43	15.37	15.07	17.97
SE 4A	2.86	0.33	1.23	0.04
SE 4B	10.45	16.61	14.93	11.30
SE 4C	1.21	2.49	2.01	0.84
Total	**100.00**	**100.00**	**100.00**	**100.00**

Table 11: NSIC-ONICRA Rating Definition

NSIC-ONICRA Rating reflects ONICRA's opinion on the company's performance capability and financial strength. Ratings are assigned on 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

Table 12: Geographical Distribution

State/Union Territory	Q1 FY15	Q2 FY15	Q3 FY15	Q4 FY15
	(In %)	(In %)	(In %)	(In %)
Andaman and Nicobar Islands	0.00	0.04	0.00	0.04
Andhra Pradesh	5.13	3.77	4.79	3.68
Arunachal Pradesh	0.00	0.00	0.00	0.00
Assam	4.77	2.49	2.28	3.95
Bihar	0.48	0.70	1.00	2.64
Chandigarh	0.33	0.08	0.09	0.19
Chhattisgarh	0.26	0.12	0.46	0.61
Dadra and Nagar Haveli	0.00	0.00	0.00	0.00
Daman and Diu	0.00	0.00	0.00	0.08
Delhi	1.61	3.15	1.96	1.42
Goa	0.04	0.00	0.00	0.00
Gujarat	4.29	3.36	2.97	2.61
Haryana	2.05	1.49	1.60	1.38
Himachal Pradesh	0.40	0.37	0.27	0.11
Jammu & Kashmir	0.07	0.04	0.05	0.00
Jharkhand	0.33	0.04	0.23	0.96
Karnataka	7.63	9.49	10.91	10.77
Kerala	0.00	0.08	0.00	0.15
Lakshadweep	0.00	0.04	0.00	0.00
Madhya Pradesh	5.72	4.72	4.61	4.67
Maharashtra	5.17	7.29	11.00	11.42
Manipur	3.92	5.92	2.74	2.15
Meghalaya	0.04	0.00	0.05	0.00
Mizoram	0.00	0.00	0.00	0.00
Nagaland	0.11	0.00	0.00	0.00
Odisha	2.53	3.27	4.16	3.52
Puducherry	0.07	0.00	0.00	0.00
Punjab	4.14	3.81	4.16	2.76
Rajasthan	4.22	3.69	3.56	3.18
Sikkim	0.04	0.00	0.00	0.00
Tamil Nadu	12.80	12.05	13.01	12.68
Telangana	0.22	3.48	2.83	3.37
Tripura	0.29	0.37	0.68	0.54
Uttar Pradesh	11.37	10.98	9.59	11.03
Uttarakhand	2.90	3.11	2.83	3.10
West Bengal	19.07	16.03	14.16	12.99
Total	**100.00**	**100.00**	**100.00**	**100.00**

ABOUT ONICRA

ONICRA Credit Rating Agency of India Limited is one of the leading Performance and Credit Rating Agency of India. It provides ratings, risk assessment and analytical solutions to individuals, MSMEs and Corporates. Third party credit and performance rating and assessment help to create 'trust' between players in markets that underpins transactions.

OUR OFFICES

HARYANA

Gurgaon
Corporate Office & Rating Office
5th Floor, Plot No, 21-22,
Udyog Vihar Phase-1V
Gurgaon - 122015
India

GUJARAT

Ahmedabad
603, Aniket, Above Metro Showroom, Opp. Jain Derasar
C G Road, Navrang Pura
Ahmedabad - 380009
India

TELANGANA

Hyderabad
#7-1-28/12/1
4th Floor, Serenity Plaza,
Shyam Karan Road
Near Andhra Bank
Ameerpet Branch, Ameerpet
Hyderabad - 500016
India

KARNATAKA

Bangalore
N-705, 7th Floor,
North Block,
Manipal Centre
47, Dickenson Road
Bengaluru - 560042
India

WEST BENGAL

Kolkata
3 D & F, 3rd Floor, Jindal Tower, Block A, 21/1A/3,
Darga Road,
Kolkata - 700017
India

TAMIL NADU

Chennai
25, Ranganathan Garden,
Ground Floor, 15th
Main Road, Annagar West,
Chennai-600040, India

MAHARASHTRA

Mumbai
520, 5th Floor
Nirmal Corporate Centre
LBS Marg, Mulund (West)
Mumbai - 400080
India

UTTAR PRADESH

Noida
B10, Sector - 59
Noida - 201301
India

Lucknow
239 Tej Kumar Plaza,
Hazratganj, Lucknow – 226001, India

Visit us at: www.onicra.com

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