

Credit rating for SMEs - why not?

by [Seetharamayya Rao](#) on September 1st 2010 and filled under [Small and Medium Enterprise \(SME\)](#)

With the government exploring ways to facilitate easier credit to small and medium enterprises (SMEs), I feel SMEs too should make some effort so that they are able to get loans easily without running from pillar to post. And one such initiative which they can take up is getting themselves rated. With more than 14 lakh SMEs it's an irony of sorts that only a pitiful 8.5% of bank loans go to them. The basic reason being that most SMEs are from the unorganised sector, thus their credibility is apparently questionable. Recent trends show that only established SMEs were able to get finance, though at a higher rate. While the government has on many occasions insisted that credit rating is not a necessary requirement for any Micro and Small Enterprises (MSEs) to get loan from banks and financial institutions at economical rates, rating invariably serves as a trusted third party opinion on the creditworthiness of these companies. The logic is simple: A good rating helps SMEs in obtaining faster and concessional credit from banks. So undertaking credit and performance rating from a reputed and accredited independent rating agency, I believe, is energy rightly spent. I think SMEs should do away with the fear that they may not get a good rating and come out and be counted. They need to understand that with a rating, banks and other financial organisations will be more comfortable while dealing with them and it will also reduce the interest rates payable by a couple of points. SMEs also need to look from the point of view of the bank. For banks, lending to a rated SME would reduce their capital charge as against lending to an unrated SME. In addition, banks need to have a benchmark to compare their own credit assessment. So credit rating seems to be the only possible route. And what's more, 75% cost subsidy through the National Small Industries Corporation is being given by the government for getting a credit rating for the first time. So what's pulling us back? After all, it will benefit us solely!