

Draft Recommendations of the Committee for revision in the guidelines of Performance & Credit Rating (PCR) Scheme

A Committee was constituted by Ministry of MSMEs, Government of India to review the guidelines for Performance & Credit Rating Scheme. The PCR Scheme with its Guidelines was launched in 2004. The Committee deliberated on the present guidelines of the Scheme and recommended for the following to increase the credibility and effectiveness for both borrowers and banks:

- 1) The rating scale under the Scheme is proposed to be revised to align it to the scale normally used by bankers. This will help banks/FIs to assess the credit worthiness of the MSEs applying to banks for fresh loans or for enhancement of their existing limits. The scale besides indicating the credit worthiness would also indicate to the user the financial strength and operating performance through performance through a well defined matrix. The details of the proposed revised scale are given in Annexure 1. While financial strength would assist lenders, operating performance would facilitate Buying Departments to assess the capability of the MSEs and assist MSEs in becoming vendor of such large buyers besides being an important input for lenders also.
- 2) The subsidy under the scheme is proposed to be revised as given in the Annexure II.
- 3) Credit Rating Agencies (CRAs) should provide data for the first year and there after should endeavour to track the units rated by them at least for three years including the financial year for which the rating is being conducted. A portal should be developed wherein information w.r.t. all rated units should be uploaded by the respective

rating agencies. While rating agencies would have access to this portal for uploading the information with respect to the units rated by them, Ministry of MSME and NSIC would have access to view the information on the portal.

For the first year in which the rating is carried out, the following data should be captured by the rating agency and uploaded on the portal:

- a. Name
- b. Address
- c. Type & Entity
- d. Year of establishment / operations started
- e. Contact no. & email.
- f. UAM No./ EM
- g. No. of Employees
- h. Turnover & Profitability of last 3 years
- i. Investment in P & M
- j. Products manufactured or service provided
- k. Whether supplying to any major buyers and whom
- l. List of top customers
- m. Loan details
- n. Name of the Bank and Address
- o. Interest Rate charged
- p. Date of Rating Renewal.

For the next 2 years, the CRA should endeavour to collect and upload the following data for these companies

- a. No. of employees
- b. Turnover & profitability for these years
- c. Loan details
- d. Name of Bank
- e. Interest rate charged

- 4) The creditability and quality of the rating is very important from the point of view of all stakeholders i.e. Industry, Banks, Buyers, Vendors etc. Its significance become more relevant under the Scheme as the fee is subsidized by the Government and banks are extending loans/facilities based on the rating. The following steps should be taken to ensure that rating quality is maintained:

- a. Only rating agencies registered by SEBI and empanelled as External Credit Assessment Institution (ECAI) by RBI should be eligible carry out rating of MSEs under the Scheme. Any rating agency that is not meeting the above criteria should not be allowed to continue rating work for Ministry of MSME under the PCR Scheme.
- b. At least 2% of the rated units in the previous year should be inspected by NSIC in the following year for the purpose of post-rating follow-up and verification. During this inspection, the data of rated units should be checked with the data captured by the rating agencies during the rating process. This may include existence of unit, its financials, fee paid by the units, rating agency's site visit details, its dealing with the bank, receipt of draft / final report from the rating agency etc.
- c. A committee should be constituted by the Government to evaluate quality of rating reports and rating methodology used by all the rating agencies. The committee members could include DC, MSME, JS, (SME) and three experts from financial sector (not from rating agencies). This Committee should evaluate the work being done by the various rating agencies by evaluating their rating reports and make recommendations to the Government about the rating agencies. The Committee should meet at least once in three months and take help of such officials and other persons for its work as required.
- d. The evaluation by NSIC and the above Committee should become the basis of giving directions to various rating agencies about the rating work being done by them. Action should be taken against the rating agency/ies whose work is not found up to the desired standards that may include barring them from carrying out rating under the scheme.

5) There is a need to have a look at the rating process/methodology adopted by the rating agencies for evaluation from MSME perspective. As this would entail interactions between Ministry, Rating Agencies and MSMEs, this should be taken up separately after the review of the scheme is over. Further, the rating methodology adopted for Greenfield Projects shall also be looked later on to include these projects rating under the scheme. Additionally, rating methodology for MSMEs from the risk of loss perspective should be explored in addition to default risk.

Ratings scale

Rating symbol	Definition
<Name of CRA> MSE 1	Highest credit worthiness in relation to other MSEs
<Name of CRA> MSE 2	High credit worthiness in relation to other MSEs
<Name of CRA> MSE 3	Good credit worthiness in relation to other MSEs
<Name of CRA> MSE 4	Above average credit worthiness in relation to other MSEs
<Name of CRA> MSE 5	Average credit worthiness in relation to other MSEs
<Name of CRA> MSE 6	Below Average credit worthiness in relation to other MSEs
<Name of CRA> MSE 7	Weak credit worthiness in relation to other MSEs
<Name of CRA> MSE 8	Poor credit worthiness in relation to other MSEs

Financial strength to be indicated by the following

Highest
High
Good
Above Average
Average
Below Average
Weak
Poor

Operating performance to be indicated by

Highest
High
Average
Weak
Poor

Illustration

The rating agency will indicate the rating as follows

Company ABC Limited

CRISIL MSE 1

Financial Strength : Highest

Operating performance: High

Revised fee structure

The fee to be paid to the rating agencies shall be based on the turnover of the Small-Scale Units which has been categorized into three slabs. The slabs of the Turnover and the Share of Ministry of SSI towards the fee charged by the Rating Agency have been indicated in the table given below:-

Turnover	Fee to be reimbursed by Ministry of SSI
Up to Rs.50 lacs	75% of the fee charged by the rating agency subject to a ceiling of Rs.10,000/-
Above Rs.50 lacs to Rs.200 lacs	75% of the fee charged by the rating agency subject to a ceiling of Rs.35,000/-
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. The portion of the fee to be subsidized by the Ministry shall be released through NSIC after submission of the Rating Report to NSIC by the Rating Agencies