

	<b>Bank of India Head Office</b>	<b>Small &amp; Medium Enterprises Strategic Business Unit</b>
Branch Circular No. : 100/ 102		Sub : Advances /SME / 2006-07/ 6
Ref : SMEJVN:17		Date: 25.09.2006.

**CIRCULAR TO ALL BRANCHES / OFFICES**

**Availing Rating Services of External Rating Agencies**

Need for a Performance and Credit Rating Mechanism for SSIs was highlighted in Union Budget 04-05 and based on this recommendations a scheme has been formulated in consultation with Indian Banks' Association (IBA) and various Rating Agencies. The National Small Industries Corporation (NSIC) has been appointed the nodal agency for implementation of this scheme. Under the scheme, the NSIC provides subsidy in the rating fees to the units obtaining credit ratings from the following agencies which are empanelled by them:

Dun & Bradstreet (D&B), ONICRA, ICRA, CARE, FITCH, CRISIL, SMERA

2. The schedule of fee reimbursement by NSIC is as under:

Turn Over of SSI in Rs Lacs	Reimbursement of Fee through NSIC
Upto Rs 50 Lacs	75% of the fee or Rs 25000/- (Whichever is less)
Rs 50 to 200 lacs	75% of the fee or Rs 30000/- (Whichever is less)
More than Rs 200 lacs	75% of the fee or Rs 40000/- (Whichever is less)

(Note: The NSIC Subsidy is available to units possessing valid SSI Registration Certificate only)

3. Salient Features of the Rating Scheme are:

- A combination of credit and performance factors including operations, finance, business and management.
- Uniform Rating Scale for all empaneled agencies.
- SSIs have the liberty to choose among the empaneled Rating Agencies.
- Turn-over based Fee structure.
- 75% reimbursement of Rating Fee through NSIC.

4. Benefits of Performance & Credit Rating for the SSI Units are:
- An independent trusted third party opinion on capabilities and Credit Worthiness of SSIs.
  - Availability of credit at concessional interest rates.
  - Recognition in global trade.
  - Proper sanction of credit from Banks and Financial Institutions.
  - Facilitate in capability and capacity assessment by vendors/buyers.
  - Enable SSIs to ascertain the strengths and weakness of their existing operations and take corrective measures.
5. Benefits of Performance & Credit Rating for the Bank are
- Reduced information asymmetry in SME sector
  - With enhanced asset quality, allocation of Risk Capital would reduce
  - We can focus on exposure to low risk accounts.
  - Enhancing the comfort level in decision making.
  - Freed up time of analysts could be used to focus on difficult accounts.
  - Early warning signals through periodic rating review.
6. Looking into the above benefits we have entered into MOUs with SMERA and CRISIL for availing their rating services. For the present we will not be entering into any formal arrangement with other agencies. However the rating services of all rating agencies empanelled with the NSIC shall be availed in respect of units in manufacturing/services sector and concessions as stated hereunder will be extended to such units rated :-
- i. Concessions in the applicable Rate of Interest to the extent of 0.50% in respect of units obtaining the Highest & 2<sup>nd</sup> Highest ratings and to the extent of 0.25% in respect of units obtaining the 3<sup>rd</sup> Highest rating.
  - ii. Subsidy to the extent of 50% of the rating fees - to all our SME borrowers with limits upto Rs. 50 lacs irrespective of the rating assigned - wherever the benefits of NSIC Subsidy are not available (such as non-SSI units, units not in possession of SSI Registration Certificates)
7. It is to be noted importantly that we are adopting the ratings assigned by the external rating agencies for the purpose of pricing only and not as a substitute for Bank's internal Credit Rating exercise.
8. Suitable awareness campaign be conducted by advising our customers suitably in this regard.



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