CIRCULAR

Subject: Revised guidelines of Performance & Credit Rating (PCR) Scheme for Micro and Small Enterprises (MSEs).

Ministry of MSME has constituted a Committee headed by JS(SME) on 22nd February, 2016 to review the guidelines for Performance & Credit Rating (PCR) Scheme to increase its credibility and effectiveness for both borrowers and banks. The Committee submitted its report in April 2016.

2. Based on the recommendations of the Committee, the guidelines of the PCR Scheme have been revised with the approval of the Hon’ble Minister (MSME). These guidelines will come into effect from the date of issue of these guidelines. The said guidelines are also available on our website www.msme.gov.in. All the Rating Agencies empanelled with the NSIC under the PCR Scheme are requested to strictly comply with these guidelines while rating the SME units.

To

(1) CMD, NSIC
(2) All the Rating Agencies empanelled with NSIC
(3) All the Committee Members of PCR Scheme Guidelines Review Committee.
(4) AS&DC(MSME)/JS(SME)/EA(MSME)/CEO, KVIC/Secretary, Coir Board, DG, NI-MSME

Copy to:

(i) PPS to Secretary (MSME)/PPS to AS&DC (MSME)/PPS to AS&FA (MSME)/PPS to JS(ARI)/PPS to JS(SME)/PPS to EA(MSME)/PPS to Director(SME)

(ii) Director(NIC) with a request to upload the Guidelines in Ministry of MSME’s website www.msme.gov.in
Revised Guidelines
of
Performance & Credit Rating Scheme
for
Micro and Small Enterprises

SME Division
Ministry of Micro, Small and medium Enterprises
Government of India
Performance & Credit Rating Scheme for Micro & Small Enterprises (MSEs)

BACKGROUND

The MSE Sector occupies an important position in any developing economy the world over. Fast changing global economic scenario has thrown up many opportunities and challenges to the micro and small industries in India. While, on the one hand, many opportunities have opened up for the small scale sector to enhance productivity and look for new markets in other countries, it has also put an obligation on them to upgrade their competence in terms of technology, management & financial strength to successfully meet the global competition.

Therefore, there is a need to create awareness amongst micro and small Units about the strengths and weaknesses of their existing operations and to provide them an opportunity to enhance their organizational strengths. As a step in this direction, a need was felt for introducing a Rating Scheme for micro and small industries. It is expected that the Rating Scheme would encourage MSE sector in improving its contribution to the economy by way of increasing their productivity, since a good rating would enhance their acceptability in the market and also make access to credit quicker and cheaper and thus help in economizing the cost of credit. Besides, the rating would also infuse a sense of confidence amongst the buyers for taking a decision on the options of sourcing material from MSEs.

With above background, a Performance & Credit Rating Scheme for micro and small industries has been formulated in consultation with various stakeholders i.e. Small Industries Associations, & Indian Banks’ Association and various Rating Agencies viz. CRISIL, ICRA, Dun & Bradstreet (D&B) and ONICRA. It has the approval of the Government.

TITLE OF THE SCHEME

The scheme is titled: “PERFORMANCE & CREDIT RATING SCHEME FOR MICRO AND SMALL ENTERPRISES”

SALIENT FEATURES OF THE SCHEME

1. APPROACH FOR RATING OF MICRO AND SMALL UNITS

   i. NSIC is the nodal agency for implementing the scheme of performance and credit rating for micro and small enterprises through its various branches/offices located in the country.
ii. The unit's rating shall be a combination of performance and credit worthiness of the unit. The MSEs rating methodology shall cover a combination of credit and performance factors including parameters measuring operational, financial, business and management risks.

iii. Only rating agencies registered by SEBI and empanelled as External Credit Assessment Institution (ECAI) by RBI would be eligible to carry out rating of MSEs under the Scheme. Any rating agency that is not meeting the above criteria would not be allowed to continue rating work for Ministry of MSME under the PCR Scheme. The eligible rating agency should apply to receive subsidy under the PCR Scheme on the portal of NSIC. Approval for eligible rating agencies should be given within one month.

iv. NSIC shall maintain a database about the units awarded Rating by different Rating Agencies.

2. SELECTION OF THE RATING AGENCY BY MSEs

The micro and small enterprises shall be at liberty to select any of the approved rating agencies empanelled under the rating scheme. The rating agency chosen by the unit shall be mentioned in its request for obtaining the rating.

3. APPLICATION FORM

The application forms will also be made available at the website of Ministry of MSME, NSIC, Office of Development Commissioner, MSME, Coir Board, KVIC and the Rating Agencies. Interested MSME Associations will also be requested to make available the Application Form from their website. The MSE unit willing to get rated under the Scheme can download the application from any of these website or obtain a copy of the application from any of the offices of the above agency.

Any MSE unit wishing to apply for rating will have to fill up the prescribed application form and submit the same to the rating agency chosen by it and as well upload the same on the website www.msmedatabank.in.

4. RATING PROCESS

The rating process will be undertaken in the following manner:

<table>
<thead>
<tr>
<th>STEPS</th>
<th>RATING PROCESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Request for Rating from MSE units will be uploaded on the portal <a href="http://www.msmedatabank.in">www.msmedatabank.in</a> by the rating agency selected by the MSE units. Complete details of the applicant unit including details of the payment made by the MSE unit will be uploaded on the portal.</td>
</tr>
</tbody>
</table>
The documents required to be submitted by the MSE unit will be collected by the selected rating company.

Onsite meeting with MSE Management

Analysis of Information obtained from the MSE Unit(s)

Assign Rating

The validity of the application will be for a period of six months during which the MSE units is required to submit all documents to the rating agency. The rating agency is also required to complete the rating process within 60 days of the receipt of complete application along with prescribed documents. The validity of a rating shall be for a period of one year from the date of issue of the rating letter.

5. RATING FEE

The Rating Agencies have different fee structure for their rating of various clients including micro and small enterprises. The Rating Agencies will devise their fee structure for MSE units under this Scheme separately.

As the evaluation criteria for award of Rating is different with various Rating Agencies and their acceptability also varies with the users, the rating fee to be charged by the Rating Agencies will be varying.

The Rating Agencies will, however, be free to decide their rating fees which will be intimated to NSIC at the time of empanelment, so that fee is well known in advance to the applicant unit as well as NSIC. The rating fees may, however, be reviewed by Rating Agencies from time to time due to the competition and the number / size of clientele.

Although, the rating fee of different Rating Agencies may vary but for the purpose of subsidizing the fee, a ceiling has been prescribed by the Government as per table given below under Sharing of Fees.

The micro and small enterprises will have to pay their contribution towards the rating fee along with its application. The payment can be made by way of pay order / demand draft drawn in favour of the Rating Agency selected by the SSI unit.

In the event of the request for Rating being treated as closed by the Rating Agency due to non-receipt of the complete information, 50% of the fees received from the MSE unit shall be refunded by the Rating Agency. However, if the MSE unit backs out from the rating process after the Rating Agency has carried out its inspection, no amount shall be refunded back.

6. SHARING OF FEES

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

Fee to be reimbursed by Ministry of MSME

<table>
<thead>
<tr>
<th>Turn Over</th>
<th>Fee to be reimbursed by Ministry of MSME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to Rs.50 lacs</td>
<td>75% of the fee charged by the rating agency subject to a ceiling Rs. 15,000/-</td>
</tr>
<tr>
<td>Above Rs.50 lacs to Rs.200 lacs</td>
<td>75% of the fee charged by the rating agency subject to a ceiling of Rs.30,000/-</td>
</tr>
<tr>
<td>Above Rs.200 lacs</td>
<td>75% of the fee charged by the rating agency subject to a ceiling of Rs.40,000/-</td>
</tr>
</tbody>
</table>

The balance amount towards the fee shall be borne by the micro and small 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.

7. RATING SCALES

While the criteria for evaluation would be left to each of the Rating Agencies, the symbols and their definition for indicating the risk score in the rating awarded has been evolved for uniform implementation by the Rating Agencies. The symbols along with their definition while assigning a Rating to micro and small enterprises are placed at Annexure-I. These symbols depict both the performance evaluation as well as the credit worthiness of the unit.

8. SHARING OF THE EVALUATION/RATING OF MSEs

The Rating Agencies shall share the Rating awarded to MSEs with NSIC.

Credit Rating Agencies (CRAs) should provide data for the first year and thereafter track the units rated by them for three years including the financial year for which the rating is being conducted. Information w.r.t. all rated units should be uploaded by the respective rating agencies on www.msmedatabank.in.

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

For the next 2 years, the CRA should 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

The CRA will be paid up to Rs.1,500/- for uploading data per unit for each of the next two years, if they upload complete data mentioned above for each year.

Public access would be provided to rating outcome for units rated and certain reports. Detailed information uploaded about the companies & full rating report would be accessible to M/o MSME and NSIC only.

9. EVALUATION AND MONITORING

At least 2% of the rated units in the previous year shall be inspected by NSIC in the following year for the purpose of post-rating follow-up and verification. The NSIC will inspect the units on the random basis and that random basis might be determined by the Committee under JS (SME) and CMD (NSIC). 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 by the MSE from the rating agency etc.

A committee shall be constituted by the Government to evaluate quality of rating reports and rating methodology used by all the rating agencies. The committee members would comprise of Secretary MSME, JS(SME) and three experts from financial sector (not from rating agencies) to be co-opted in the Committee by Secretary MSME. This Committee shall evaluate the work being done by the various rating agencies. The Committee shall meet at least once in three months and take help of such officials and other persons for its work as required. The experts
co-opted on the Committee shall be paid sitting fees up to Rs.10,000/- per meeting / day, but actual rates will be determined by the Committee.

The findings as per inspection report of NSIC and the evaluation by the above Committee shall become the basis of recommendations of the Committee to the Government about the performance of the rating agencies. Accordingly, directions shall be given to various rating agencies about the improvements solicited in the rating work being done by them and action to be taken against the rating agencies whose work is not found up to the desired standards that may include barring them from carrying out rating under the scheme.

10. PROMOTION OF THE SCHEME

The scheme would be given wide publicity by NSIC, IBA and Credit Rating Agencies. The details of the scheme would also be available on the website of the Ministry of MSME, NSIC, IBA & its member banks, MSME Associations and the Rating Agencies shall also be used to promote the Rating Scheme.

11. INFORMATION REQUIRED FOR RATING

MSEs applying for rating will have to submit the documents as per list placed as Annexure-I (B) along with the hard copy of the application to NSIC or the rating agency selected by the unit

12. ADMINISTRATIVE EXPENDITURE

NSIC is the nodal agency for implementing the Performance and Credit Rating Scheme of Ministry of MSME. The administrative expenditure to the tune of 7.5% of the total expenditure of the Performance and Credit Rating Scheme shall be reimbursed to NSIC for implementing the scheme but at least 3% of this amount will be spent on dissemination and publicity of the Scheme. The administrative expenditure includes expenditure towards advertisement & publicity of the scheme, cost of inspection, services for the evaluation committee, the cost of the manpower and efforts put in by the NSIC for implementation of the scheme.

*******
Annexure-I

Rating Scale of MSEs on Performance and Credit Parameters under the Performance & Credit Rating Scheme.

Ratings scale

<table>
<thead>
<tr>
<th>Rating symbol</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;Name of CRA&gt; MSE 1</td>
<td>Highest credit worthiness in relation to other MSEs</td>
</tr>
<tr>
<td>&lt;Name of CRA&gt; MSE 2</td>
<td>High credit worthiness in relation to other MSEs</td>
</tr>
<tr>
<td>&lt;Name of CRA&gt; MSE 3</td>
<td>Good credit worthiness in relation to other MSEs</td>
</tr>
<tr>
<td>&lt;Name of CRA&gt; MSE 4</td>
<td>Above average credit worthiness in relation to other MSEs</td>
</tr>
<tr>
<td>&lt;Name of GRA&gt; MSE 5</td>
<td>Average credit worthiness in relation to other MSEs</td>
</tr>
<tr>
<td>&lt;Name of CRA&gt; MSE 6</td>
<td>Below Average credit worthiness in relation to other MSEs</td>
</tr>
<tr>
<td>&lt;Name of CRA&gt; MSE 7</td>
<td>Poor credit worthiness in relation to other MSEs</td>
</tr>
</tbody>
</table>

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

Name of the rating agency MSE 1

Financial Strength: Highest

Operating performance: High

**********