

# 'Rating helps set an SME apart from others'

Small and medium enterprises (SME) of India, for years, had been the 'common man' of business fraternity. Though often referred as the most important part of the economic fabric of the country, SMEs say, hardly anything concrete was done for its growth.

However, of late, efforts have been made to bring about a change in their way of working of SMEs through implementation of services like rating of the enterprises, easy loans, information technology and a host of schemes of the government. But, the awareness level is still an issue.

In conversation with DNA Money, **Yogesh Dixit**, head - SME Ratings, Crisil, **Venguswamy Ramaswamy**, global head - small and medium business, Tata Consultancy Services, **Chandrakant Salunkhe**, president, Small and Medium Business Development Chamber of India (SMBDCI), **Charu Dutt Sharma**, head - operations, SME Rating Agency of India Ltd (Smera) and **Virendera Goyal**, national sales manager, Smera, spoke about funding, competitiveness, costs, quality and other issues pertaining to the sector. The discussion was moderated by **Promit Mukherjee**. Excerpts:

## What is happening in the SME sector?

**Yogesh Dixit:** The post-election scenario is very positive, though not much fundamental change has taken place at the ground level. Exports are still very tough for SMEs, the demand issues that were there in the system continue. But a lot of optimism has come into the system and there is promise on the infrastructure front. For manufacturing — which is the life and blood of small-scale industries and SMEs in India — to happen, infrastructure improvement is crucial. Plus, initiatives from State Bank and others such as loans at 8% interest for SMEs give big support. Easing liquidity has brought some respite, too. Now, we have to see how the demand improves.

**Chandrakant Salunkhe:** I hope that the current government does something substantial for the SME sector. In the previous government, the minister for the SME sector did not give much time. But the secretary did a great job by following up on the problems with various concerned authorities. Lending, I think, is still not at a level that it should be, despite the RBI instructions. Banks have a lot of schemes for the sector but the information about them is not properly disseminated to the end-user. For example, under CGTMSE, (Credit Guarantee Trust for Medium and Small Enterprises), a loan of Rs 1 crore is available which is collateral-free. But, a lot of bank branch managers are not aware of this. That is why several SME development agencies are conducting programmes to educate bank managers. Even the credit rating of SMEs has not reached the level that it should have.

**Dixit:** The point is that the country is huge. Historically, in India, 2,000 companies may have been rated in the last 20 years, but after SME ratings started about 10,000-15,000 enterprises have been rated and this is a big number. So, things are moving ahead.

**Salunkhe:** There is a fear among several SMEs that if they get rated, their value will come down and that can again act as a hurdle in raising funds. But they should remember rating is the most important criteria to raise finances from banks. This will take time. You see, there are 40 million enterprises in India and if we take into account only the registered ones, there are still 20 million enterprises.



■ (From left) Charu Dutt Sharma, head — operations, SME Rating Agency of India Ltd (Smera), Yogesh Dixit, head — SME Ratings, Crisil, Chandrakant Salunkhe, president, Small and Medium Business Development Chamber of India, Venguswamy Ramaswamy, global head — small and medium business, Tata Consultancy Services, and Virendera Goyal, national sales manager, Smera — Kamlesh Pednekar/DNA

## What's your take from the IT industry point of view?

**Ramaswamy:** If we look at the challenges that the SME sector faces currently, then ideally it would fall into five categories. One is working capital. It is a big challenge for them to get the money coming back into the system. And even if they have the money, their ability to invest in information technology is very, very low. Look at it this way, if I have a lakh of rupees, I will go and purchase plant & machinery which will go into my balance sheet rather than putting into IT which will never go into the balance sheet.

Second is the experience of enterprises in using technology is pretty poor. At any given point they are dealing with 12 to 14 vendors, with each supplying different things such as network, personal computers and ERP-related software. And one day they realise they cannot work with the current hardware. Then when they upgrade the hardware, they realise that their operating system has changed and the new software will not work. So you see the curve of technology dropping down as complexity increases and then SMEs tend to decide that pen and paper works than the IT system. And you will see this curve predominantly in most of the SMEs. Also, a large number of SMEs — 95% of them — are very, very small.

The third is that there is no technology upgrade fund available from the government today. The fourth is that in spite of India being an IT capital from a global perspective, no SME can still go forth and hire a credible IT professional. People prefer to work for a TCS, Infosys and not an SME. Even if they hire, their ability to retain IT talent is just not there, they just can't afford to retain a guy beyond 6-9 months.

The fifth is that the expectations from the global market are changing. Today there are bench-

mark expectations — if you are delivering to General Motors or a better company, your ability to remain competitive in a global scenario is very difficult because big companies have stringent quality norms.

## Are SMEs wary of getting themselves rated?

**Goyal:** See, rating as a concept is very new in India for SMEs. They get themselves rated only when they are pushed by the banks; they go ahead only when there is a fear of loss or hope of gain. But when I personally meet SMEs they sound apprehensive and ask what if the rating goes bad? It is a valid point and we tell them that you need to face the truth. Then people actually cooperate. We have also seen a decent number of renewals. Even new accounts are also improving year on year.



## Is the negative economic sentiment keeping SMEs back from ratings for the time being?

**Goyal:** We are a three-year-old company and in terms of volume we have seen growth. But yes there is a little slackness, a slowdown in sector-specific SMEs such as auto, especially in pockets like Pune, Nashik and Chennai. What happens is they feel that since business has been bad in the last one year, the rating will also be bad. So, there is a little bit of resistance these days, but I personally feel that rating as a concept will take some more time for the SMEs to accept. It is actually a journey, people have to get educated and they have to ultimately get transparent.

You will be surprised that people fight for a half a per cent interest rate reduction, but when we ask SMEs what is their internal rating on which the

interest rates are fixed, they have no clue. They don't know because interest rate is always on BPLR +/- basis. And that keeps changing.

**Salunkhe:** I would say banks are equally responsible for this situation.

**Sharma:** The RBI reviewing the PLR mechanism is a major development. SMEs are always in the PLR-plus category, I haven't seen anyone getting a sub-PLR loan.

**Salunkhe:** As far as fear of rating is concerned, I will give an example: one of our members working somewhere ... he says he is working 18-19 hours a day and manufacturing a product that is selling in the international market and is also a rated SME. But when he approached Bank of Maharashtra for financial assistance recently, the bank said it has an internal system of rating and it will use that only, and not an external rating. This company's requirement was Rs 20 crore, but guess what the bank said it will give? Rs 3 crore.

**Dixit:** In such cases if credit is not given to the SME, then the branch manager should be approached. Secondly, if you have rating and your rating is high, you can always contest if you are charged a very high rate of interest. Or else you can go to other banks as well. A rating helps in setting an enterprise apart from others, and pulls it out of the shadow of the entire SME sector which is perceived as not very efficient.

## How many times on a scale of 10 do you reject rating an SME for not having systems and processes?

**Sharma:** No, that never happens. In fact, our organisation has taken a lot of effort to train and guide SMEs so that they can meet the exacting standards. This was beyond our area of operation to rate them. For example, we have trained them on capacity fronts and on the importance of documents and other such related things that SMEs

didn't have knowledge earlier, which they can channelise to bring in credit. This is what is bringing more and more SMEs to us and other rating agencies.

The mindset is changing and they have taken a number of positive and corrective steps when we pointed out their strengths and weaknesses. In our rating report, we provide them what are the measures needed to be taken, and what are their pluses and minuses so that they can change for the better. In that direction there has been a lot of improvement and change of mindset.

**Salunkhe:** If SMEs are getting rated by major institutions like Crisil and Smera, why don't they put it on their website? This will help in attracting more and more funding agencies and lift the SME's face value. And the buyer or importer will check out the SME's credit worthiness. This is what we are training these days since February this year.

**Sharma:** For each rating, we also send a letter which tells the SMEs the steps to be taken to project their rating and use it in the places needed. The guidance is always imparted to them along with the rating.

**Dixit:** I would say the government has a huge network across the country, and it should make use of this to spread the word about the importance of rating and implementing IT to the SMEs.

**Ramaswamy:** One thing that is very noticeable is that in most of the SMEs run by second-generation entrepreneurs, the adoption of technology is much, much greater as is the awareness level.

## What would be your advice to a budding entrepreneur heading an SME?

**Salunkhe:** See, micro, small or medium entrepreneurs should adopt latest technology, latest information. They should be fully equipped and prepared from all directions to survive in market. Another thing, they should obtain whatever facilities available to them from the government and different agencies. They have to themselves go out and seek information through various available resources; in short they have to self driven.

**Dixit:** I would say that try to inculcate a culture of entrepreneurship, because through private and government sector you can create limited employment. That should be the motive of SMEs; they should look at generating employment. There are people who have not done academically very well but are very successful entrepreneurs. Therefore, entrepreneurship is the way ahead.

**Sharma:** Apart from adoption of technology, ratings and all, they have to build up good networks and contacts.

**Goyal:** One of the important things to do is getting rated. Second is, the entrepreneurs should spend some on the internet, like on the websites of the Ministry of MSME, on various agencies that are dealing with SMEs, Sidbi or at least on Google. They should find out about various schemes that are available, and believe me, there are many. But people are just not making use of it. Instead of saying the government is not doing this and that, it's time they really used what the government has already made available.

**Ramaswamy:** There is an enormous amount of opportunity for SMEs to use IT for business growth efficiency more than cost efficiency. I think SMEs and budding entrepreneurs should understand the importance of IT because in terms of efficiency we are still scratching the surface. They should understand that not only cost optimisation but IT can do much more than that.



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