CREDIT RISK ANALYSIS OF MICRO ENTERPRISES – A CASE STUDY OF DELHI FINANCIAL CORPORATION

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ABSTRACT

Lack of availability of funds is one of the critical factors, which restricts the formation and growth of Small & Medium Enterprises (SMEs). Inspite of many good and laudable programmes of the Central and state governments and also RBI's diktat to lend money as part of the priority sector to SMEs, still at the ground level SMEs face a huge challenge in terms of approaching financial institutions including banks for availing credit facilities.

We argue that apart from the conventional ability to assess pay basis of analysing default risk, there may be a group of other set of factors, which need careful attention specifically for micro enterprises that do not maintain balance sheets and are unable to disclose properly the financial details. We find it relevant to examine the behaviour of relevant measures of default risk to explore the most significant variables relating to financing (loans). We provide a framework that is useful in designing parameters in predicting the default outcomes. The study is likely to be useful in developing credit score for a micro enterprise to facilitate the loan from financial institutions.

Keywords: *Credit Risk, Default Prediction Models, Micro Enterprises, Financial Variables JEL Classification: G32, ESI, N2, M13*

INTRODUCTION

A viable small scale industrial project (SSI) normally receives financial support from the institutions and commercial banks. The institutions and banks have been advised by the Government and RBI to ensure that the development of SSI projects does not suffer for want of adequate and timely assistance. Finance is the most critical input not only in setting up new industries but also for expansion and modernization of existing industries.

A number of agencies have been set up for extending financial assistance. There is a central institution, namely Small Industries Development Bank of India (SIDBI) providing finance to small units on concessional terms i.e. at low rate of interest, longer moratorium, easy installment and longer repayment period. But their help is generally indirect. It reaches the small units through State Level Agencies (State Financial Corporation) and Commercial Banks (which are directly involved in the promotion of small units) through 'Refinance Scheme and Bill Rediscounting Scheme'.

Institutional Arrangement

The SIDBI is the principal financial institution for promotion, financing and development of the Medium & Small Enterprise (MSE) sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. SIDBI's major operations are in the areas of (i) refinance assistance to state level agencies (ii) direct lending and (iii) development and support services. Commercial banks are important channels of credit dispensation to the sector and play a pivotal role in financing the working capital requirements, besides providing term loans (in the form of composite loans). At the state level, State Financial Corporations (SFCs) and twin-function State Industrial Development Corporations (SIDCs) are the main sources of long-term finance for the MSE sector.

Recognising the importance of easy and adequate availability of credit in sustainable growth of the MSE sector, the government has announced a policy package for stepping up credit to small and medium enterprises, with the objective of doubling the flow of credit to this sector within a period of five years.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

It is the premier development bank in the country set up in the year 1989 under SIDBI Act, 1989 and serves as the Principal Financial Institution for promotion and development of SSI sector. It also co-ordinates the functions of the institutions engaged in promotion, financing or developing small scale sector.

SIDBI offers wide range of financial assistance through its direct finance, refinance, bills finance and other schemes of assistance besides support services. They are:

Line of Credit to

i) Small industries development corporations for supplying raw-material and extending marketing support to SSI units.

ii) Factoring companies to factor SSI debts.

Refinance

i) Of loans granted by banks and State Level Institutions for new SSI projects and for expansion, modernization, quality promotion, diversification and rehabilitation.

ii) Of loans to small road transport operators, small hospitals and nursing homes and to promote hotel and tourism related projects.

STATE FINANCIAL CORPORATIONS (SFCS)

In each of the States of Indian Union, a State Financial Corporation has been set up under SFC Act 1951 and these Corporations advance medium and long term loans for acquisition of fixed assets such as factory land, building and plant and machinery. SFCs also finance for working capital along with term loan under single window scheme in respect of new SSI and tiny industries where aggregate cost of the project (excluding working capital margin) and total working capital requirement is within Rs. 50 lakh. In such cases, SFCs grant term loans up to a maximum of 75% of the cost of the fixed assets and working capital finance up to 75% of the requirements.

The State Financial Corporations (SFCs) set up under the State Financial Corporations (SFCs) Act, 1951 have made significant contribution in developing industrial sector including the Small Scale Industry (SSI) Sector in India during the past five decades, 1960-2010. The SFCs mainly Andhra Pradesh State Financial Corporation (APSFC), Gujarat State Financial Corporation (GSFC), Maharashtra State Financial Corporation (MSFC), Kerala Financial Corporation (KFC), Rajasthan State Financial Corporation (RFC) and Delhi Financial Corporation (DFC). The SFCs have played pivotal role in the overall development of SSIs in the country. They, among others, have contributed in bringing about decentralized economic development, dispersal of industrial activities, employment generation, reducing regional imbalances, promoting first generation entrepreneurs, and helped in strengthening the economy of their respective States.

Over the years their activities have expanded considerably. However, with the passage of time, several problems connected with the structure, management and resources have confronted the SFCs. As such, their overall financial health has reached a critical stage, with most of the SFCs having eroded their net worth. With the introduction of financial sector reforms, the business environment for SFCs as also other players in the financial system, is becoming increasingly competitive. To enable SFCs to adapt themselves to the emerging environment and promote the growth of the small scale and tiny sector in the desired manner, Government of India (GoI) enacted, in September 2000, amendments to the SFCs Act. These amendments facilitated SFCs in enlarging their shareholders base, providing them with greater functional autonomy and operational flexibility and enabling them to respond to the needs of the changing financial system.

SFCs have largely remained a "Single Product" provider extending term loan assistance to SSIs. With the onset of process of liberalization and competition pushing the process of disintermediation aggressively across various players in the financial system, SFCs would need to provide diversified products/services. Overall, the provision of diversified bouquet of products/services should ward off any untoward and adverse impact of a particular activity on the health the SFCs. The amendments to the SFCs Act in September 2000, have expanded the business areas of the SFCs and now they can do almost all business that are being carried out by the all India financial institutions. Flexibility has also been provided under the Act for inclusion for such other business areas which are incidental to or consequential upon the other business areas of the Corporation.

SFCs have been granting working capital term loan under SIDBI's single window scheme. They have also been granting such loans outside the single window scheme particularly to the existing industrial units starved of working capital.

The SFCs play a vital role in the economy for the State and their continued strength and stability is a matter of interest and concern to the State Governments and other stakeholders. SFCs as statutory corporations possess certain unique characteristics. They are highly leveraged organizations and the Act itself provided or their borrowings up to 10 times the amount of their paid-up capital and reserve fund which can be increased to 30 times with the approval of SIDBI. The brief profile of few SFCs are given below to provide information about their nature of operations and existing infrastructure.

CREDIT RISK ASSESSMENT

Financing of Micro, Small & Medium Enterprises (MSME) Sector is altogether different from conventional methods of financing top large corporations. Credit risk assessment management in retail portfolios places a premium on a bank's ability to accurately differentiate the credit quality to assess credit risk and to allocate their economic capital to different segments of their portfolios.

The assessment of risk provided by banks' internal systems essentially require banks and financial institutions to apply quantitative techniques and modeling the risk. Basel II permits banks a choice between two broad methodologies for measuring credit risk. One alternative, the standardized approach will be to measure credit risk in a standardized manner, supported by external credit assessments. The other alternative, the Internal Ratings – based Approach (IRB) which is subject to the explicit approval of the bank's supervisor would allow to use internal rating system for credit risk. Basel II report provides that loans extended to small businesses and managed as retail exposure are eligible for retail treatment provided the total exposure of banking group to a small business borrower is less than €1 million. For relying on internal estimate of risk components, a qualifying IRB rating system needs to be designed by bank or financial institution.

Credit scoring models and other mechanical process are permissible as the primary or partial basis of rating assignments and may play a role in the estimation of loss characteristics. For retails exposures, a bank must review the loss characteristics and delinquency status of each identified risk pool at least on an annual basis. RBI has already issued detailed directive to banks and financial institution to adhere to time schedule to implement standard as well as IRB approach in their respective bank and financial institution.

Accordingly, the studies on internal exposures of banks and financial institution shall facilitate smooth implementation of IRB approach in Indian banks and financial institutions. In a survey carried out by Jayadev (2006), it is reported that banks and financial institutions in India so far do not utilize statistical based risk tools for credit granting decisions.

Considering the need for internal credit scoring model in Indian context, the study uses the comprehensive information on parameters of the financial package delivered by Indian Financial Institutions to micro enterprises to design credit risk model instead of categorizing borrowers in terms of their 'ability to pay'. The study verifies the association property of the parameters with credit risk and establishes the relationship between new credit appraisal parameters with the default events of such firms. In the absence of any such in Indian context as on the date, the motivation is for the study to attempt a solution to the unresolved problem of the credit decision process to micro enterprises having no past track record of performance.

DELHI FINANCIAL CORPORATION

Delhi Financial Corporation (DFC), a state owned financial institution, established in April, 1967 under the State Financial Corporations' Act 1951, is engaged in promoting, financing and developing small and medium scale industries and service enterprises in NCT of Delhi and UT of Chandigarh. Over the years, DFC has played a critical role in promoting fist generation entrepreneurs besides fulfilling socio-economic obligations like relocation of industries from non-conforming to conforming areas, replacement of old commercial vehicles with new CNG driven vehicles, employment generation etc.

Scope of Activities

Financing of loans for establishing and running micro, small and medium scale industries, service sector industries and commercial transport sector in National Capital Territory of Delhi and Union Territories of Chandigarh. Focus of the Corporation is social development via poverty alleviation, employment generation, creating opportunity for self-employment, relocation of industries, cleaning environment and encouraging first generation entrepreneurs. Corporation makes available finance for all activities, which are permitted under SFC Act or approved by the SIDBI.

Unique Value Propositions (UVPs)

The peculiar features of DFC include-

(a) Unique financial institution of Delhi & Chandigarh, which always intends to promote and finance First Generation Entrepreneurs.

(b) Being a dedicated Financial Institution for funding industrial and service sector only, quick, personal & hassle free financial assistance is made available in a time bound manner.

(c) Longer period of repayment schedule ranging between 5 to 10 years with 6 months to 24 months moratorium period

(d) Tie up with PNB for creation of second charge for Working capital assistance

(e) Adequate delegation of powers at lower level of management for smooth and fast business operation

(f) Lower interest rate computed on reducing balance basis

(g) Provide Micro Finance facility for self employment & alleviation of poverty

(h) No collateral security / third party guarantee for loans up to Rs. 50.00 lakh under CGTMSE Scheme for permissible & viable project.

Exhibit 1: **Financial Performance of DFC for the financial year 2009-10**

Particulars	Amount (Rupees in Lakhs)
Paid-up Capital	2605.75
Reserves	4510.09
Borrowings	3967.07
Gross Sanction (Cumulative)	120371.91
Effective Sanction (Cumulative)	80314.39
Disbursement (Cumulative)	69395.64
Loans Outstanding	8654.20
Gross Income	1415.12
Net Profit	26.50

Industrial Scenario of National Capital Territory (NCT) Delhi

The issue of industries in Delhi has been a subject of extensive debate, controversy and concern over the past decade. This has centred mainly on the aspects of pollution and negative environmental impact of industries, the existence and continued growth of industries in non-conforming areas and the issues of classification and permissibility with reference to household industries. Delhi has close to 1 lakh manufacturing units employing nearly 6 lakh people, with majority of units operating in the unorganised sector. The 62nd round of NSSO survey for 2005 estimated 97,636 manufacturing units in the unorganised sector employing 4.5 lakh workers. The manufacturing units in organised sector in 2005, as per the Annual Survey of Industries add up to just 3,312, employing ~1.2 lakh people.

Delhi has a large presence of garment and furniture manufacturers followed by electrical machinery production and repair services. Manufacturing in Delhi is small scale and low-skilled which has made it attractive to the migrants from neighbouring areas, putting strain on the state's resources and infrastructure. On the other hand, skilled people residing in Delhi are travelling everyday to work in other cities like Gurgaon and Noida. Further, being small scale in nature, the units in Delhi are not investing enough in upgrading technology and installing pollution control equipment.

Delhi has 28 planned industrial estates spread over an area of 4,647 acres. In addition, it has four flatted complexes, which are developed and maintained by the Industries Department and DSIIDC. Of the 32 industrial estates and flatted complexes, nearly 21 industrial estates under DDA, and consequently a major chunk of existing industrial assets in Delhi, are maintained by Municipal Corporation Delhi (MCD). Rest are under DSIIDC and Industries Department, variously maintained by DSIIDC, MCD and PWD. It can be seen that Delhi suffers from the problem of multiplicity of organisation. The planned industrial areas, however, house only a fraction of units (about 25,000) operating in the state. Delhi has been grappling with the problems of manufacturing units functioning in non-conforming areas and pollution caused by industrial units.

In 1996, it was Supreme Court which gave directions for resolving both the problems. It ordered shutting down of hazardous, noxious, heavy and large industries operating in Delhi. It also directed closing down of Hot-Mix plants and Brick Kilns in Delhi. The Court asked Delhi to relocate manufacturing units in residential areas not conforming to Master Plan of Delhi 2001 (MPD-2021).

Consequently, Delhi government framed an industrial relocation scheme in October 2006, where 27,905 units were declared eligible for allotment of industrial plots or flats in Bawana, Jhilmil, Narela, Badli, Patparganj and various flatted factories. By July 2009, nearly 17,801 units made full payment and completed all the legal formalities, and 16,667 have taken physical possession. However, only about 5,000 of the units have started actual construction work on the site.

Delhi Relocation Schemes Status

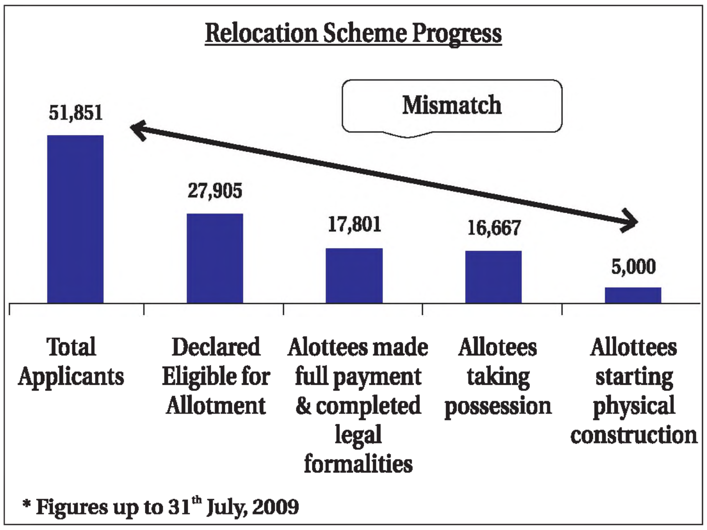


Exhibit 2

ORGANISATION OF THE DATA

Data has been obtained from the files of a prominent financial institution in Delhi involved in financing majority of units under relocation scheme. The data set in this study consists of 2864 observations covering two years of quarterly data on all 2864 micro enterprises that had one or several loans outstanding at the financial institution on the last day of atleast one quarter between 31st January 2007 to 31st January 2009.

The data consists of all the information available in a financial institution on each applicant for retail business loans, including the credit package details and banking behaviour data. There are 97 discrete and categorical variables, one of which is the observed credit reliability, measured through good credit risk, bad credit risk and foreclose credit risk as supervisor target variables to build up a credit scoring rule able to discriminate good credit from bad credit. A credit scoring rule has been able to tell which are the discriminant variables and give their weight in the final score.

As many as 27 questions are asked from the executives of financial organization and based on their statements, the study has divided independent variables into four major categories, Demographical Information, Loan Indicators, Collateral Position, and Industry Classification.

Exhibit 3 : Predictive Variables of the Model

Demographic Indicators	Loan Indicators	Collateral Position	Industry
District	margin	Prime Security	Type of Industry
Category	tsanction_TILEN=1-20	installments	Constitution
	lsanc/tsanc1=1-10	Payment Mode	Scale
	bsanc/tsanc1=1-10		
	Rateinterest		plot size
	Additionalinterest		Existing Function/Closed
	Disbursement		Shifted/Not shifted/Likely to be shifted
	Scheme		

The explanation of predictive variables is provided in Exhibit 4

Exhibit 4 : Definition of Predictive Variables

Indicators	Description
Demographic	
District	Demographic location divided in nine districts of Delhi for example North-East District.
Category	Category of Borrower based on caste. However, category-H refers to handicapped borrower.
Loan	
Margin	Borrower's share of money
tsanction_TILE N=1-20:	Total amount of loan sanctioned to a project. It is divided into 20 different classes called as TILE N-1 to N-20 based on vintile algorithm for example tsanction_TILE N5 is the class of loans sanstioned between INR. 3,00,000/-
Isanc/tsanc1 = 1-10	Ratio of amount of sanction of loan for land to total amount of sanction for project. It is also divided into 10 different parts ranging from <.1 to >.9 for example loans having a ratio between .4 to .5 are termed as isanc/tsanc1=5.
bsanc/tsanc 1=1-10	Ratio of amount of sanction of loan for building to total amount of sanction for project. It is also divided into 10 different parts ranging from <.1 to >.9 for example loans having a ratio between .3 to .4 are termed as bsanc/tsanc1=4.
rateinterest	Rate of Interest at which the loan sanctioned.
addionalinterest	Rate of penal interest to be charged for late payment.
	Amount of loan disbursed against sanctioned amount.
disbursement	Description of scheme under which the loan sanctioned for example
Scheme	Relocation Scheme.
Collateral Position	
Prime Security	Value of the security created against amount of loan.
installments	Number of installments in which loan is to be repaid.
Payment Mode	Mode of repayment whether through post dated cheque or through demand notice or through bank

Industry	
type Of Industry	Type of Industry based on RBI classification for example Basic Metal Industries.
constitution	Constitution of borrower whether individual, partner, company.
scale	Whether micro, small or medium unit based on MSME Act 2006.
plot size	Size of the plot allotted like 100 Sq. Mtr.
existing function/closed	Whether existing unit is functioning or closed.
shifted/not shifted/likely to be shifted	Whether unit is shifted to new site, not shifted or likely to be shifted.

Default Logic

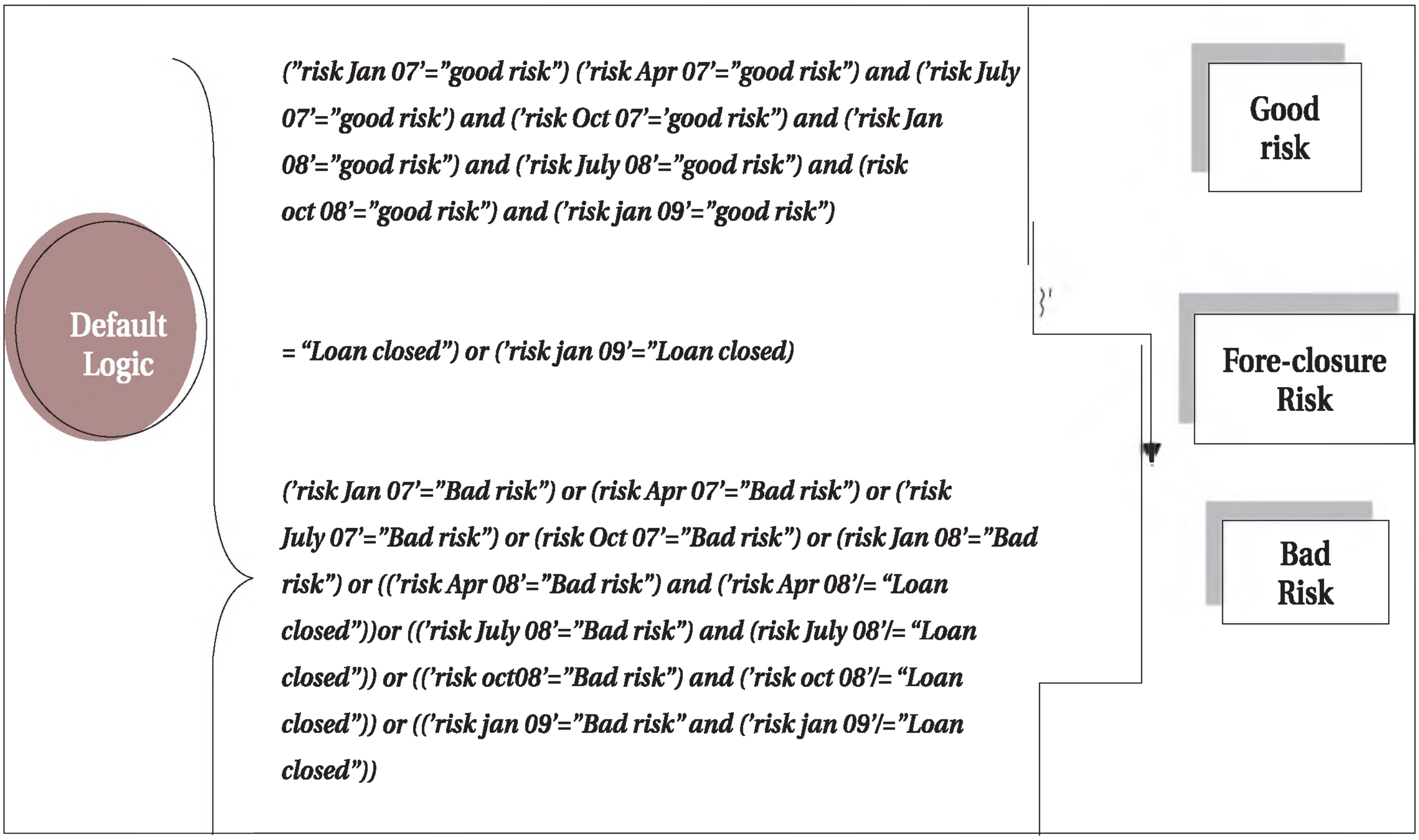


Exhibit 5

Exhibit 6 : Definition of Dependent Variables

Good Risk Credit (Non NPA)	The loan accounts which are not categorized as non-performing assets even once between January 2007 are categorized as good risk credit.
Loan Closed Risk Credit	The borrowers started loan closing their accounts since April 2008. All loan cases which were loan closed between April 2008 to January 2009 were classified as loan closed risk credit.
Bad Risk Credit (NPA)	The loan accounts which are categorized as non-performing assets even once between January 2007 to January 2009 and are not categorized in the loan closed risk credit are categorized as bad risk credit.

FINDINGS

NPA Ratio Variation

The movement of the NPA ratio over a period of nine quarters from January 2007 till January 2009. The Exhibit-8 (depicting graph) shows that there is quite a movement over time in the average default rate of the portfolio. The default rate increases from 3.25% to 3.88% in first three quarters of 2007 and decreased to 3.25% in the last quarter of 2007. The maximum rate of default at a level of 3.88% within the stipulated period is reached in third quarter of 2007. During first two quarters of 2008, default rate declines, and again reaches a smaller peak at a level of 3.32% in the fourth quarter of 2008 and then tumbles down in the first quarter of 2009 to 2.09%.

Variation in NPA during Q1 2007 to Q1 2009

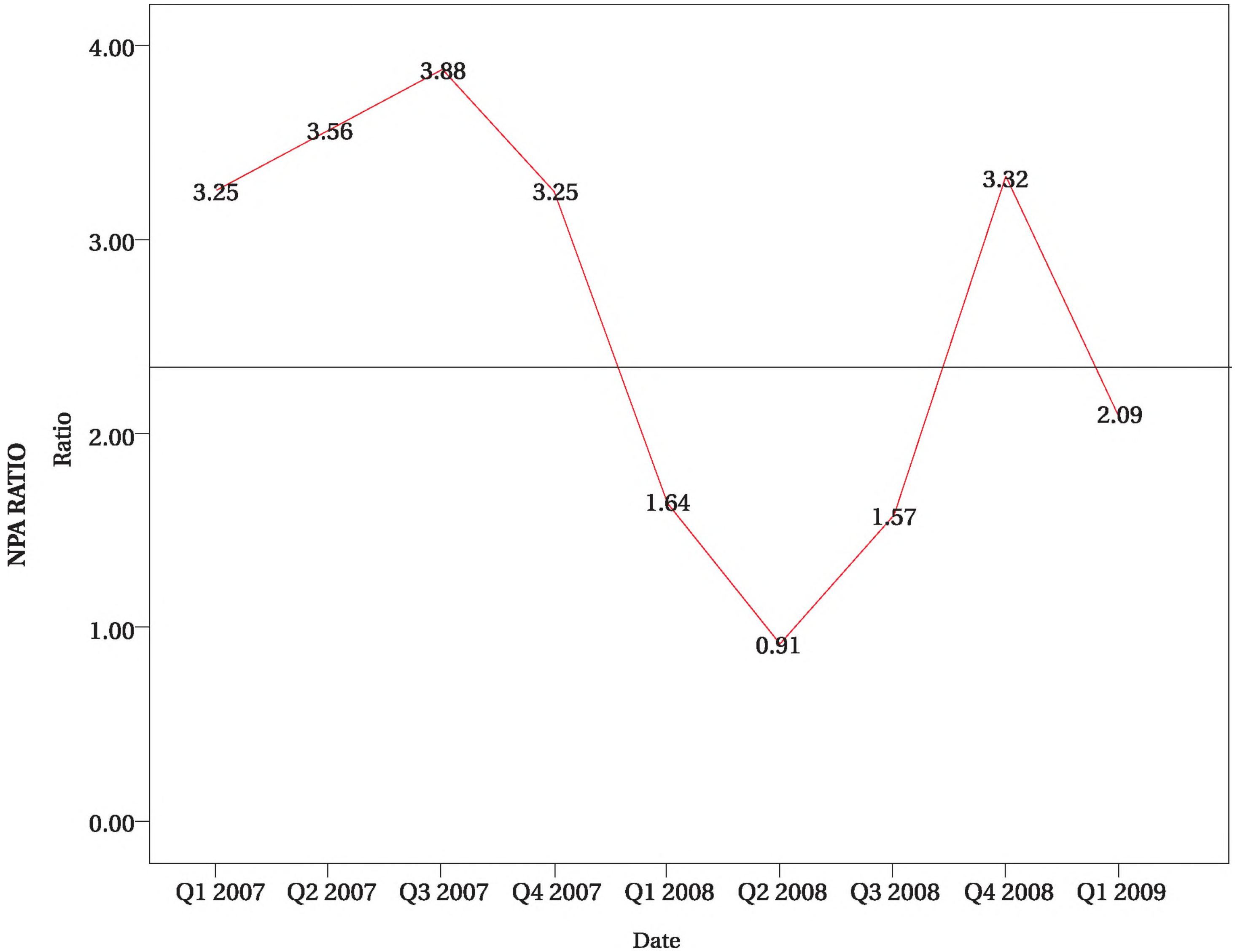


Exhibit 7

Period

Type of Industry vs Credit Risk

Industry-wise analysis has been carried out for Bad Risk Credit, Good Risk Credit and Foreclosed Risk Credit.

Industry Wise High Risk Credit during Q1 2007 to Q12009

Risk: High Risk Credit

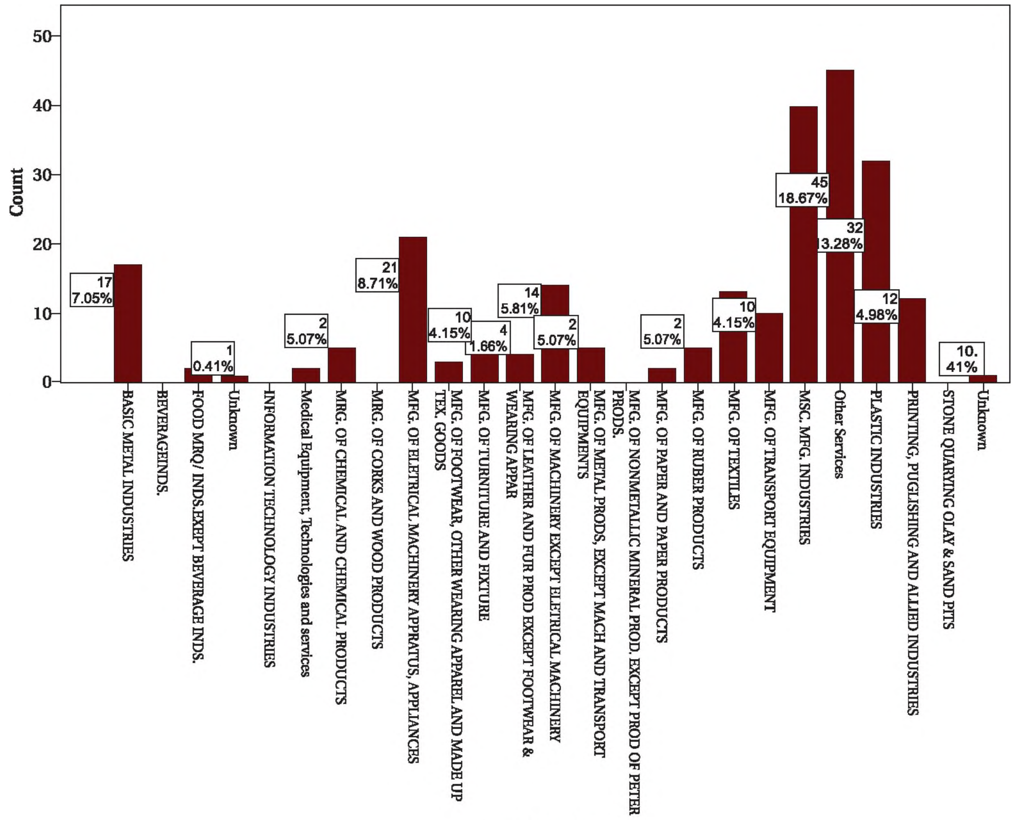


Exhibit 8

Industry wise good risk Credit during Q1 2007 to Q1 2009

Risk: Good Risk Credit

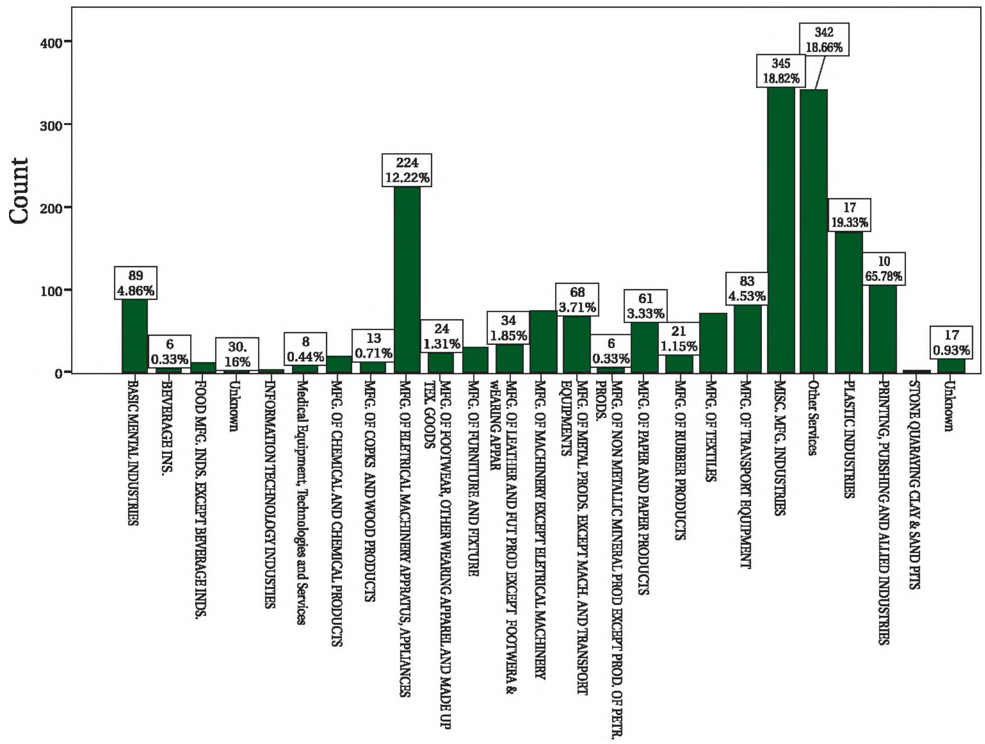


Exhibit 9

Industry Wise Foreclosure Risk Credit during Q1 2007 to Q1 2009

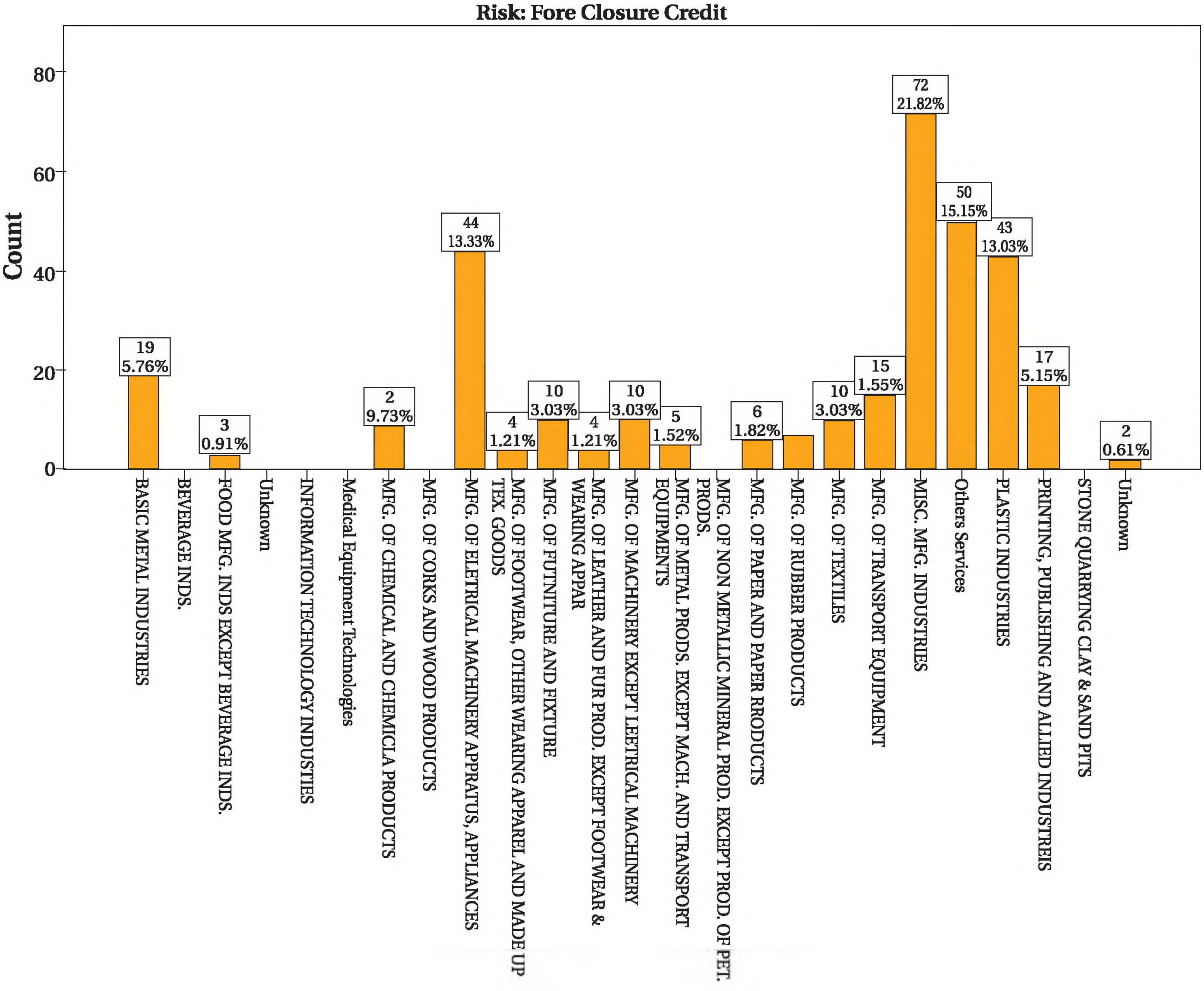
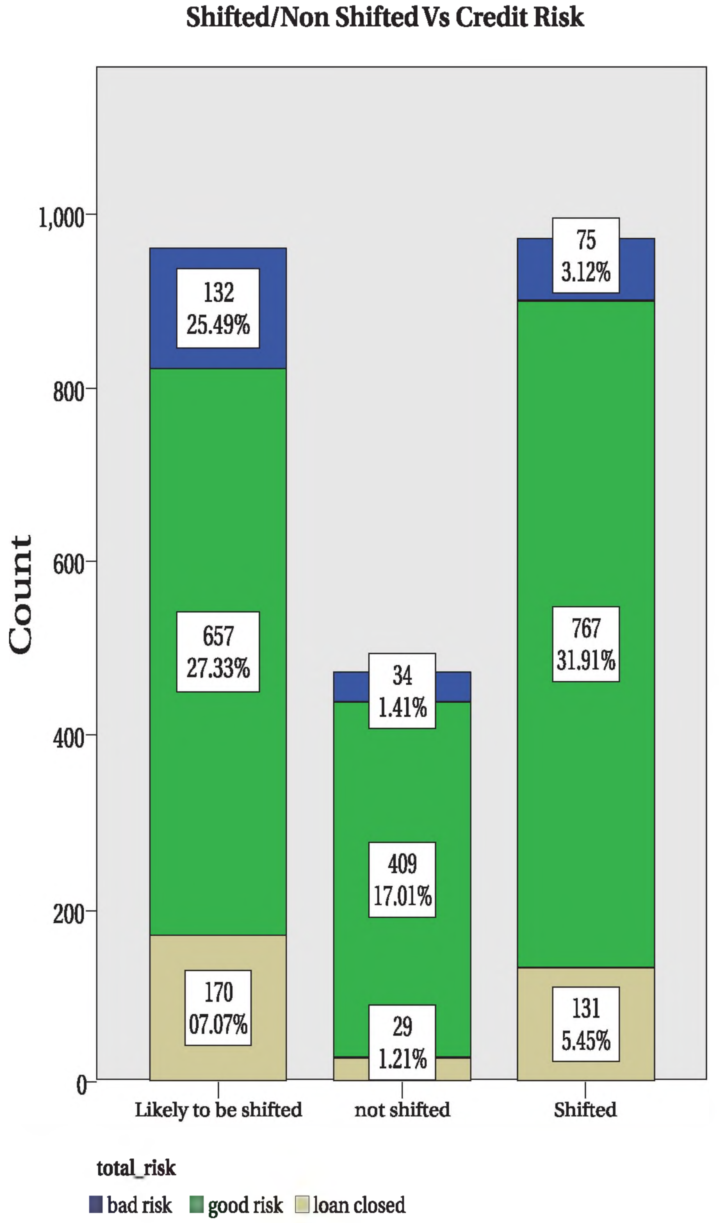


Exhibit 10

From Exhibits 8 to 10 (Graphs), the type of industries like beverage, IT, manufacturing of corks and wood products, manufacturing of non-metallic mineral production except production of metallic product and manufacturing of paper and paper products, stone quarrying clay and sandpits do not belong to bad risk credit category but basic metal industries, manufacturing of electrical machinery apparatus and appliances, manufacturing of leather and fur products except footwear and bearing apparels, manufacturing of textiles, miscellaneous manufacturing industries, other services, plastic industries, printing publishing and other allied industries belong to bad risk category. Further basic metal industries, manufacturing of electrical machinery and apparatus appliances, miscellaneous manufacturing industries, other services, plastic industries, printing publishing and other allied industries have substantial foreclosure credit risk. This analysis facilitates to design the industry index for high risk, good risk and foreclosure credit risk.

Shifted / Non Shifted Vs Credit Risk:

During the period of study it has been noticed that some of the industrial units have been shifted, others are likely to be shifted and the remaining category is not yet shifted. The proportion of the units in three categories are shown in Exhibit 11 based on exploratory analysis:



Shifted/Not Shifted

Exhibit 11

Loan Scale Vs Credit Risk:

In order to determine the influence of amount of loan sanctioned on risk, loan bucketing has been done. The range of loan sanctioned for this study has been bucketed in 20 bins. From the exploratory analysis it is observed the risk distribution across different type of sanction, majority of the credit (52.78%) was for purchase of land and the ratio of NPA credit was approximately 15:17:20 as Good Risk : Bad Risk : Foreclosed Risk in the group. Next the second majority of the customer i.e. 45.18% belong to the group who were sanctioned credit for building. It was observed that the ratio of good risk, bad risk and foreclosed credit was 12.89%, 29.55% and 10.74% respectively. The rest of the 2.04% for credit for machinery, pre-operative expenses and other expenses.

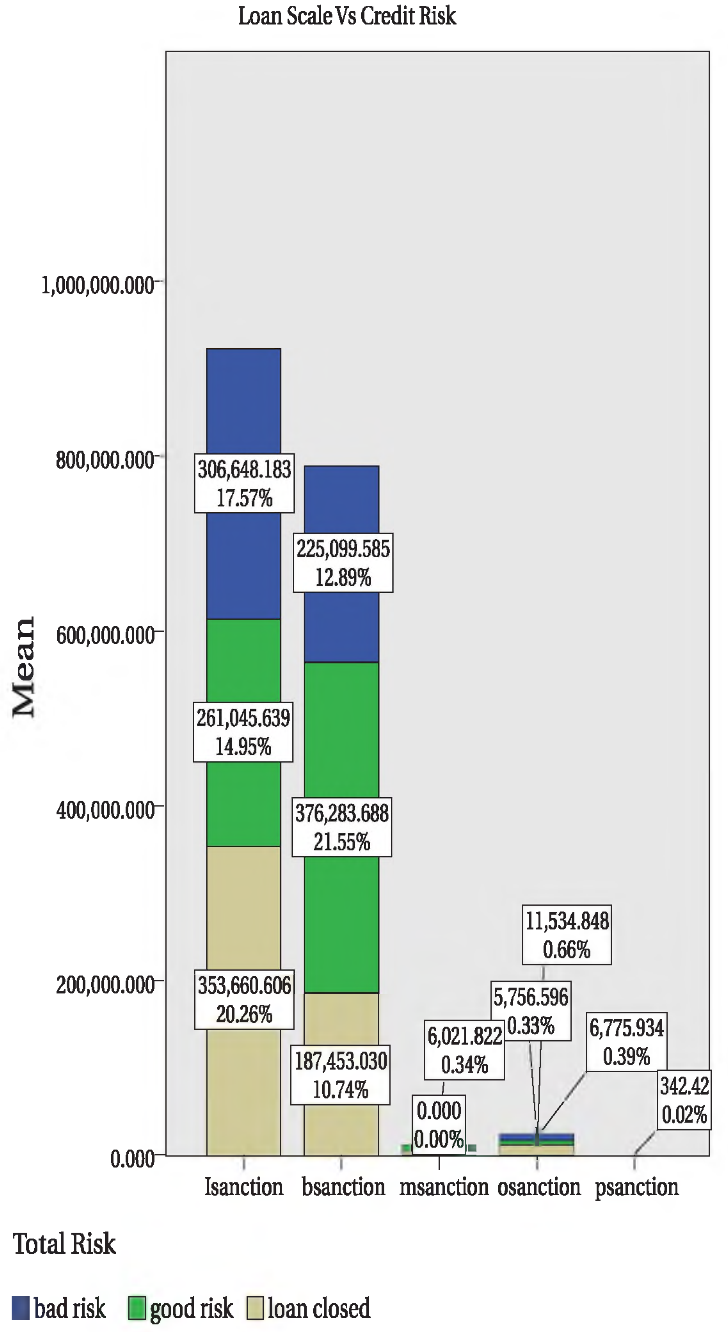


Exhibit 12

Location Vs Credit Risk:

The exploratory analysis was carried out based on the location of the existing industrial units. All industries in this study were divided into nine districts of Delhi in order to explore whether separate districts are homogeneous or not. The district-wise as well as the risk-wise report is presented in the Exhibit 13 (graph).

Location Vs Credit Risk

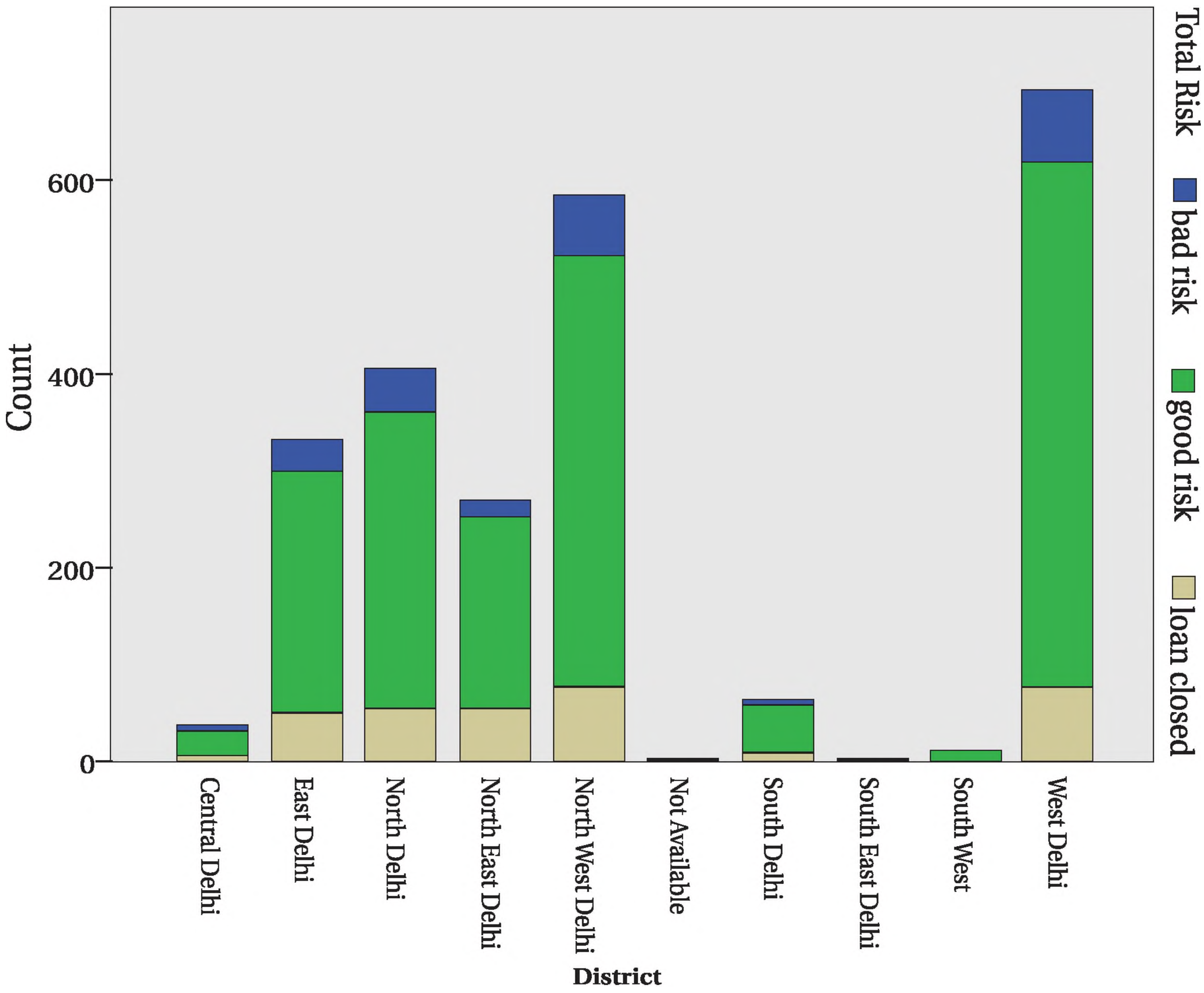


Exhibit13

CONCLUSION

It is recommended that enterprises having some homogeneity in business in an area may be identified as clusters. The model cost of project for different size of industrial activity and overall viability of the activity based on empirical studies through data mining techniques may be assessed by institutions so as to obviate the need of the any expert/professional to prepare the viability study in individual cases. This practice is recommended for projects for small and medium enterprises. In the context of Delhi, homogeneity of industries is observed as mentioned below:

North West Delhi	Wazirpur, Badli	Stainless Steel Utensils & Cutlery
South & West Delhi	Okhla, Mayapuri	Chemicals
West & South	Naraina & Okhla	Electrical Engineering Equipment
North Delhi	Lawrence Road	Food products
South Delhi	Okhla, Wazirpur	Leather Products Flatted Factories Complex
South West Delhi	Okhla, Mayapuri	Mechanical Engineering Equipment
	Anand Parbat	

West, South	Naraina, Okhla	Packaging material
East Delhi	Patparganj	Export-oriented products
West & South	Naraina & Okhla	Paper products
West & South	Naraiana Udyog Nagar & Okhla	Plastic Products
West, South	Naraina, Okhla,	Rubber Products
North West	Shivaji Marg, Najafgarh Road	Godown, cold- storage, lighting and consumer products
North East Delhi	Shahadara & Vishwasnagar	Wire Drawing
West & North West	Mayapuri & Wazirpur	Metal Fabrication
West & North East	Kirti Nagar & Tilak Nagar	Furniture
North West Delhi	Wazirpur	Electroplating
South, West, North	Okhla, Mayapuri	Auto components
West & North west	Naraina, Wazirpur, Badli& G.T. Karnal Road	Foundries, Iron and steel rolling activities
North East Delhi	Shahdara, Gandhi Nagar, Okhla	Hosiery
South & North East	Okhla & Shahdara	Readymade garments
South Delhi	Okhla	Sanitary fittings.

It is recommended that cluster based approach be adopted for collecting data from banks and financial institutions to build scoring model for financing small & medium enterprises in an automatic way. Since the cluster based approach for financing SME sector offers possibilities of reduction in transaction costs, mitigation of risk and also provide an appropriate scale for improvement in infrastructure, banks may treat it as a thrust area and increasingly adopt the same for SME financing.

SIDBI in association with Indian Banks' Association may initiate necessary steps to collect and pool common data on risks in each identified clusters and develop an IT-enabled application, appraisal and monitoring system for small (including tiny) enterprises. It is expected that this measure will help in reducing transaction costs as well as improve credit flow to the small and tiny enterprises in the clusters. To broaden the financing options for infrastructure development in clusters through public private partnership, SIDBI can formulate a scheme in consultation with the stakeholders.

We anticipate that banks and other lending agencies will be catching up in the coming years for adopting quantitative methodologies like scoring models with integration of non-parametric techniques and machine learning methods for granting loans. In other words it is expected that data mining techniques shall benefit immensely the lending agencies in India in time to come specially in evolving risk assessment model for small size enterprises in unorganised sector as well as MSMEs in India.

The above study will help to develop credit score of the micro enterprises by determining various risk parameters. High score can help an SME negotiate better borrowing rates with lenders, mobilize larger loans, and seek relaxation in stipulation of security requirements. If the score is moderate or low, it gives a clear message to the enterprise to take steps for improvement. The scoring report, which lists out the strengths and weakness of an enterprise, helps it decide which areas to focus on for improvement. SMEs can use ratings to enhance their credibility with other counter parties, such as technology providers, suppliers, and customers.

Government of India (GOI) suggested constitution of a small working group under the Chairmanship of Dr.K.C.Chakraborty, now Dy. Governor of RBI with State Bank of India (SBI) and Small Industries Development Bank of India (SIDBI) as members to look into the issues relating to the small and medium enterprises. The Committee observed that lack of transparency in financial data and inherent weakness of small enterprises makes the process of credit rating difficult in MSMEs. As per the report, it has been recommended that lending in case of all credit upto Rs.2.00 crore (though no rational has been given in the report but it appears that Rs.2.00 crore has been taken to cover only small scale units and not medium scale units) should be done on the basis of scoring model. Information required for scoring model should be incorporated in the application form itself. No individual credit rating is required in such cases.

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