Credit rating rule for SME long-term loans could go

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BEFORE SANCTIONING CREDIT, BANKS ASK BORROWERS TO PRODUCE RATINGS ON CREDIT PROFILE AND REPAYMENT CAPACITY

THE Reserve Bank of India (RBI) is likely to relax the mandatory credit rating requirements on long-term loans to small and medium enterprises (SMEs). The move comes amid a merchandise exports plunge, necessitating credit availability to small firms contributing nearly half of the country's total exports.

Despite their classification as priority sector, SMEs find it tough to get bank credit. Before sanctioning long-term credit, banks ask SMEs (as also other companies) to produce ratings on their credit profile and repayment capacity from agencies like Crisil, Care and Fitch. "A suggestion has come from the SME industry that mandatory ratings requirement should be waived for large credit accounts," a government official said. This would lower credit costs of SMEs.

"The issue is how to make credit available to SMEs without hassles and less transaction costs. The government is discussing the issue. We will provide some relaxation shortly to boost SME financing," the official said. He said easing such constraints is important especially in the backdrop of an economic slowdown. India's manufacturing growth has slumped in recent months, pushing GDP growth to a nine-year low of 5.3% in the last quarter of 2011-12.

Continued on Page 2