

SME rating not lucrative enough for big agencies

PRADEEP GOOPTU &
NILADRI BHATTACHARYA

Kolkata

Low returns and operational hazards associated with the rating of the small and medium enterprises (SMEs) has led to outsourcing of the job by reputed rating agencies to local audit firms.

"Rating agencies usually hire local cost accountants and auditing firms. The reliability of these ratings are questionable as rating analysis is not their forte," an analyst said.

"Local firms do a template-based study and do not address subjective issues like technology, quality and future trends associated with the industry. The ratings are not always reliable," he added.

One of the reasons for outsourcing is the unorganised nature of SMEs and the subsequent lack of information,

which is necessary for predicting future cash flow. The prediction is vital for a good credit rating.

PK Choudhury, vice-chairman and group CEO, ICRA Ltd, refused to comment on outsourcing. He did admit, though, that rating agencies were going slow on SME ratings on the account of lower cost realisation vis-a-vis the rating of corporate entities.

"SMEs are usually not organised, so there is absence of requisite information. Rating SMEs, therefore, requires higher due diligence. The procedure requires proper hand holding to guide and prepare required information. Validation also requires higher manpower, making the proposition expensive," Choudhury said.

"We would like to rate a lot more SMEs, but as of now we are consciously not aggressive in this sector," Choudhury said.