

SMEs' credit rating model may be applied to smaller NBFCs too

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THE government will explore ways to facilitate easier credit rating of smaller finance companies as it looks to tighten the regulatory and oversight regime before enlisting them for its financial inclusion drive.

The finance ministry will discuss the idea with the banking regulator, the Reserve Bank of India. "It's being discussed if a rating model similar to small and medium enterprises and micro finance institutions can be applied to small non-banking financial firms as well," said a finance ministry official. Under the existing structure an un-rated or under rated (less than A-) non-banking financial firm cannot accept public deposits of more than Rs 10 crore.

As per industry reports more than 90% of the deposit-taking NBFCs are of small & medi-

um size. Almost all of them are without rating or have inadequate rating.

"This (lack of rating) has made fund raising both through public deposits and bank or institutional borrowings increasingly difficult," said co-chairman FIDC, Raman Agarwal. FIDC is a representative body of asset financing NBFCs. Rating agencies such as CRISIL, ICRA and FTICH use the same rating model for grading both small and large NBFCs, which leads many to NBFCs opting out from the rating process.

"We're told (by rating agencies) to withdraw from the process as they'll not be able to assess us (due to small size) or would lead to negative rating," said a CEO of a mid-size asset financing company.

A questionnaire sent to CRISIL remain unanswered till the time of filing this story.

Only a handful of small & medium NBFCs enjoy the minimum investment

grade credit rating. As of now rating agencies such as SMERA and M-CRIL rate SMEs and MFIs but these agencies are not approved by the RBI.

"SIDBI accepts ratings of these companies. It can be looked into if a similar approach is viable for NBFCs too," the official said, adding that RBI already does an annual onsite inspection for deposit taking NBFCs thus taking care of the depositor interest.

According to Alok Misra, director ratings and research at M-CRIL, the rating process should not be restricted to financial parameters for such companies. "There needs to be a holistic appraisal involving governance parameters and assessing operation and management of the company," he said.

NBFCs account for 9.1% of the assets of the total financial system. Deposits of asset financing companies increased by 17.5% during 2008-09.



CREDIT BOOST

Easier credit rating to help small & medium NBFCs as only a handful of them have the investment grade rating