



FEDERATION OF INDIAN MICRO AND SMALL & MEDIUM ENTERPRISES

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Shri Narendra Modi
Hon'ble Prime Minister of India
South Block
New Delhi

Sub: RBI mandated Bank Loan Ratings-a self-inflicted injury; needs urgent correction

Hon'ble Sir,

What began as an RBI 'advisory' became a norm and then a mill around the neck of banks and the borrowers. It strangled the MSMEs, retarding growth and inhibiting employment. Please allow us to elaborate on the unfortunate saga of Bank Loan Ratings.

Since 2006-07, apprehensions were raised by many experts globally, including an ICRIER study (2007), that BASEL-II accord would adversely impact lending to SMEs. In India the sector is already improvised with barely 5% of them having access to institutional funds.

From 2012, RBI advised Banks to get external rating for even smaller exposures (first up to Rs. 10 Cr then further reduced to Rs. 5 Cr) from accredited Credit Rating Agencies (CRAs) who hitherto rated large corporate borrowers. While it proved a bonanza for CRAs- an assured business from hapless MSME borrowers, it actually meant the large corporate rating templates were blindly applied on MSMEs making this most dynamic sector look like 'risky'.

A not-so-good rating for MSMEs means that Banks are required to allocate greater capital against the exposure to improve their risk-weighted asset ratio (CRAR). Indian banks which have been already under-capitalized, responded by increasing cost of funds and restricting/reducing even existing exposures. Lending to new projects has come to a stand-still.

While Government is harping for Make-in-India, manufacturing growth and employment, Banks at ground are forced to do just the opposite. It's a folly that needs urgent correction. The BLR rating was never meant to be a norm- as RBI admitted to FISME in writing, but was to be an interim measure till Banks developed their own risk assessment models.

May we seek your intervention in directing Banks to put in place their own risk assessment models in a fixed time frame and to completely do away with BLRs.

Thanking you
Yours sincerely

(Dr. Sangam Kurade)
President



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