A Study on CMR (Cibil Msme Rank) And Its Effectiveness in Msme Loan Evaluation

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***Abstract*—Micro, Small and Medium Enterprises (MSMEs) play a crucial role in economic growth, employment generation and industrial development. However, lending to MSMEs involves higher credit risk due to factors such as irregular cash flows, limited collateral and inconsistent financial records. To manage this risk, financial institutions increasingly rely on data-driven credit assessment tools such as the CIBIL MSME Rank (CMR).**

This study examines the effectiveness of CMR in MSME loan evaluation and its role in predicting credit risk and loan outcomes. The research is based on an analysis of ten MSME loan cases evaluated during an on-the-job training program. Primary data was collected through direct observation of loan files, credit appraisal processes and interactions with credit officers. This report provides a comprehensive analysis of the connection between the CMR (Credit Management Rating) rank of a company and its ability to obtain loans, the likelihood of rejection and/or default, and various other factors related to the loan process, including but not limited to: age (vintage) of the business, past financing history, days past due (DPD), and collateral, as well as the lender's own anti-money laundering (AML) procedures, and industry risk.

The research also found that MSMEs (Micro, Small & Medium Enterprises) with lower CMR rankings (2-4) received more than 70% of the loans that were approved and showed an overall trend of better repayment performance than those with higher CMR rankings (6-9), who experienced a higher rejection rate from lenders and subsequently becoming a non-performing asset. CMR also serves as an early warning system of financial difficulties; however, after credit decisions are made by lenders, both financial and non-financial criteria do influence the decision.

The study concludes that CMR is a reliable and effective tool for MSME credit risk assessment when used alongside traditional appraisal parameters. It supports objective decision-making, improves credit quality and helps reduce default risk in MSME lending.

I. INTRODUCTION

The Micro, Small and Medium Enterprise (MSME) sector forms an integral part of the Indian economy by generating employment opportunities, providing support to local businesses, increasing production levels and generating contributions to the national Gross Domestic Product (GDP). Despite their importance in the Indian economy, a large number of MSMEs face difficulties in obtaining loans from banks or other financial institutions. This is primarily due to the fact that MSMEs are perceived as high-risk borrowers — mainly because they do not have stable income streams; there is limited availability of collateral; financial records are often inadequate; and the business conditions under which they operate are uncertain.

In order to reduce this risk and take better lending decisions, financial institutions use various credit evaluation tools. One such important tool is the CIBIL MSME Rank (CMR), which is specially designed to assess the credit risk of MSME borrowers. CMR ranks MSMEs from 1 to 10, where lower ranks indicate good credit behaviour and lower chances of default, while higher ranks indicate higher risk and poor repayment capacity. This ranking helps lenders understand the financial discipline and creditworthiness of MSME borrowers.

CMR is used along with other important factors such as business experience, cash flow stability, repayment history, Days Past Due (DPD), collateral security, legal compliance and industry performance. By using CMR together with these factors, lenders are able to make more accurate and objective credit decisions. CMR also helps in identifying early warning signs of financial stress, which allows timely action to prevent loan defaults.

This study aims to understand the effectiveness of CMR in MSME loan evaluation by analysing actual MSME loan cases. The study focuses on examining the relationship between CMR ranks and loan approval or rejection outcomes. It also attempts to understand whether CMR truly reflects the credit risk of MSME borrowers. Overall, the study highlights the importance of data-driven credit assessment in improving credit quality and reducing non-performing assets in MSME lending.

II. LITERATURE REVIEW

Research Paper 1
Title: Assessment of Credit Risk in MSMEs through Alternative Credit Scoring Mechanisms
Researcher(s): Dr. Shalini Sinha
Published Date: 2021
Findings: Dr. Sinha’s study evaluates alternative approaches to MSME credit scoring, with a particular emphasis on hybrid models combining traditional data sources with real-time transaction data. The research identifies CMR as a reliable and efficient tool, especially when integrated with GST data and bank transaction history. The findings suggest that MSMEs which maintain digital financial records tend to achieve better CMR scores and receive faster credit approvals. Furthermore, the study notes that CMR provides nuanced behavioural insights, such as delayed payments and cash flow trends, which traditional scoring models often overlook.

Research Paper 2
Title: Credit Analytics for MSMEs in India: Impact and Challenges
Researcher(s): Dr. Pankaj Kumar
Published Date: 2023
Findings: Dr. Kumar’s study critically examines the implementation of credit analytics in rural and semi-urban MSMEs. While CMR is acknowledged as a powerful credit scoring tool, its reach remains limited in Tier 2 and Tier 3 cities due to data unavailability and digital illiteracy. The study concludes that MSMEs maintaining digitized financial documents such as GST filings, income tax returns and audited balance sheets tend to have superior CMR rankings. Furthermore, it argues that CMR can act as a catalyst for formalizing informal enterprises by incentivizing transparent financial behaviour in return for improved credit access.

Research Paper 3
Title: The Impact of Credit Scores on the Financing of Indian MSMEs
Researcher(s): Dr. Anjali Gupta
Published Date: 2021
Findings: Dr. Gupta conducted a field study involving 150 MSMEs across northern India, revealing that most businesses were initially unaware of CMR and its implications. Upon gaining awareness, 60% of them actively worked to improve their credit behaviour, resulting in higher CMR scores and more favourable loan terms. The study found CMR to be particularly responsive to recent credit patterns, making it more dynamic than traditional credit scoring methods. It emphasizes the need for broader financial literacy programs to help MSMEs fully leverage tools like CMR.

Research Paper 4
Title: Credit Scoring for MSMEs in India: A Review
Researcher(s): Dr. Rekha Rao
Published Date: 2022
Findings: Dr. Rao’s study presents a critical review of credit scoring practices in India, highlighting the advantages and limitations of the CMR system. While acknowledging its predictive power, the study observes that many micro-enterprises remain excluded due to inadequate documentation and resistance to formalization. The findings suggest that government incentives and regulatory frameworks could encourage more MSMEs to participate in credit reporting systems, thereby improving CMR coverage. Additionally, banks using CMR reported stronger return on investment (ROI) and healthier credit portfolios compared to those relying on manual evaluation methods.

Research Paper 5
Title: CIBIL MSME Rank (CMR): A New Age Credit Risk Evaluation Tool for MSMEs
Researcher(s): TransUnion CIBIL & SIDBI
Published Date: October 2020
Findings: This joint report by TransUnion CIBIL and SIDBI underscores the effectiveness of CMR as a predictive credit risk evaluation tool tailored for the MSME sector. The findings show that MSMEs ranked

between 1 to 4 had a default probability of less than 2%, in contrast to those with ranks between 7 to 10, where default rates exceeded 10%. The report also highlights that lender leveraging CMR experienced a reduction in loan processing time by over 40%. Additionally, the study found that MSMEs with strong CMR scores not only had easier access to finance but also saw higher rates of loan renewals and repeat borrowings, establishing CMR as a robust framework for long-term credit assessment.

Research Gap

From the review of earlier studies, it is found that many researchers have studied MSME financing, credit risk management, NPAs and the role of credit scores in loan appraisal. The researcher tried the best to gather the relevant literature to support the study. These studies show that poor credit assessment increases default risk and that data-based tools help improve loan quality. However, most studies focus on individual credit scores or overall MSME lending performance. Very few studies specifically study the role of CIBIL MSME Rank (CMR) in MSME loan evaluation. Also, limited research is available on how CMR actually affects loan approval, rejection and default behaviour

Most previous studies are based on secondary data and theoretical analysis. There is very little practical research based on real MSME loan cases. Also, the combined effect of CMR with factors like DPD, collateral, business experience, industry risk and compliance is not clearly studied. Hence, there is a research gap in understanding the real effectiveness of CMR in MSME loan evaluation. This study attempts to fill this gap by analysing actual MSME loan cases and their outcomes.

Scope from Literature Review

a) The study focuses on understanding the use of CIBIL MSME Rank (CMR) in MSME loan appraisal and credit decision-making.
b) It analyses the relationship between CMR scores and loan approval or rejection outcomes.
c) The study evaluates how accurately CMR reflects the creditworthiness and repayment behaviour of MSME borrowers.
d) The scope includes assessing whether lower CMR scores are linked with higher loan rejections or NPAs.
e) The study examines the role of CMR in internal credit appraisal practices along with other factors like collateral and DPD.
f) The study is limited to the MSME segment and is based on primary data collected during the internship.

III. RESEARCH METHODOLOGY

Problem Identification

CMR is used as a data-based tool to assess credit risk in MSME loans, but its actual effectiveness in predicting defaults and supporting loan decisions is not fully clear. There is also uneven awareness and understanding among credit officers regarding the use and interpretation of CMR.

This study aims to examine how CMR is used in MSME loan appraisal, its influence on loan approval or rejection and how accurately it reflects the true credit risk of MSME borrowers. The study also seeks to understand credit officers' perception of CMR as a credit assessment tool.

Objectives

1. To understand the concept of CIBIL MSME Rank (CMR).
2. To analyse how Bank uses CMR in MSME credit decision-making.
3. To assess the relationship between CMR ranks and loan approval/rejection.
4. To evaluate whether CMR accurately reflects credit risk in MSMEs.

Introduction to Research Methodology

Research methodology refers to the systematic and structured approach adopted to collect, analyse and interpret data in order to achieve the objectives of a research study. It provides a clear framework that explains how the research problem is examined, how data is gathered and how conclusions are drawn.

In this study, the research methodology explains the process followed to examine the effectiveness of CMR (CIBIL MSME Rank) in the MSME loan evaluation process of banks. The methodology is based on real loan cases, practical observations during on-the-job training and analysis of customer-level credit data to understand how CMR influences lending decisions.

Research Design

The study follows a descriptive and analytical research design.

- The descriptive aspect helps in explaining the concept of CMR and understanding its role in MSME credit appraisal and loan evaluation practices followed by banks.
- The analytical aspect focuses on examining actual MSME loan cases, analysing CMR ranks and studying how these ranks influenced decisions such as loan approval, rejection, loan amount sanctioned and risk categorisation.

This combination of descriptive and analytical design enables a practical understanding of how CMR is applied in real-world banking scenarios.

Nature of the Study

The nature of the study is case study–based. It concentrates on the MSME lending process of banks by analysing selected MSME loan applications processed during the internship period. By studying actual credit files and decision patterns, the research provides realistic insights into how CMR supports credit decision-making and risk assessment in MSME lending.

Data Collection Methods

The study makes use of both primary data and secondary data to ensure comprehensive analysis.

Primary Data|

Primary data was collected directly from banks during the internship through:

- Examination of 10 actual MSME loan application files
- Observation of the MSME loan processing stages, including initial screening, credit appraisal and final approval or rejection
- Informal discussions and interactions with credit officers and analysts to understand practical usage of CMR

Secondary Data

Secondary data was collected from the following sources:

- CIBIL publications and documentation related to the CMR methodology
- Internal MSME loan policy guidelines of banks
- Research papers, journals, textbooks and online articles related to MSME lending and credit risk assessment

Sample Size and Sampling Technique

Sample Size

The sample size for the study consists of 10 MSME loan cases selected for detailed analysis. These cases include borrowers with varying:

- CMR ranks
- Loan amounts
- Industry types
- Loan outcomes (approved, rejected, or NPA)

Sampling Technique

The study adopts a purposive sampling technique. Loan cases were selected based on relevance, availability of complete information and suitability for analysing the impact of CMR. The selected cases were chosen because:

- Complete CMR data was available
- The loan applications were processed during the internship period
- Both approved and rejected cases were included, allowing meaningful comparison

Tools and Techniques Used for Analysis

The study uses simple qualitative and quantitative tools for analysis, such as:

- Comparison of CMR ranks across approved and rejected MSME loan cases
- Classification of borrowers based on risk categories (CMR 1–10)
- Analysis of the relationship between CMR ranks and loan amount sanctioned
- Observation of how CMR interacts with other factors such as collateral, DPD, AML issues and business stability

Limitations of the Study

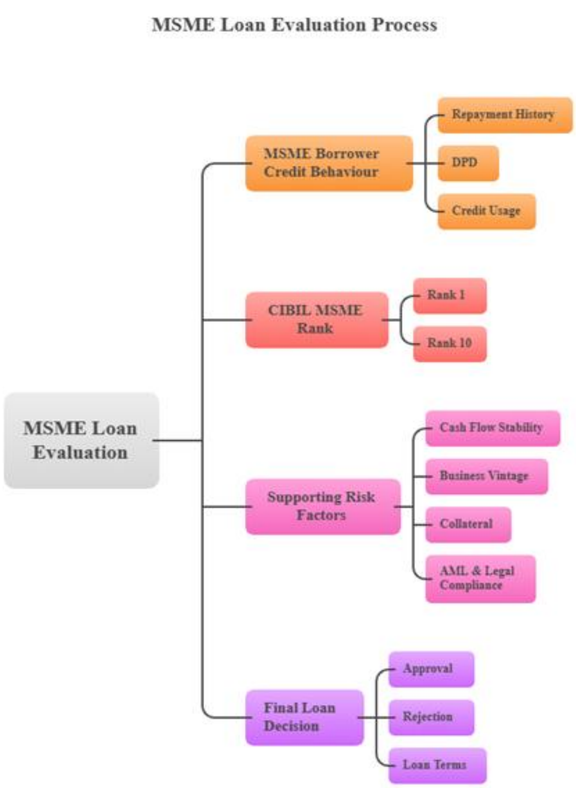
The study is subject to the following limitations:

- The sample size is limited to 10 MSME loan cases, which may restrict generalisation of results
- Access to confidential internal risk models and proprietary scoring systems was restricted
- The findings are based on a specific operational environment and may not fully represent practices followed by all banks

- Some borrower information depended on available records and may be subject to reporting limitations

Ethical Considerations
The study has been conducted by strictly following ethical guidelines:
- Confidentiality of customer information has been maintained at all times
- No personal or sensitive financial data has been disclosed in the research
- Data was used solely for academic purposes with prior permission from the concerned authorities
- The study does not intend to harm the interests or reputation of any bank or customer

IV. CONCEPTUAL FRAMEWORK



CONCEPTS
1. MSME Borrower Credit Behaviour
MSME borrower credit behaviour refers to how a business manages its financial obligations over time. This includes timely repayment of loans, proper use of credit limits and maintaining discipline in banking transactions. In MSMEs, irregular cash flows and delayed payments are common, which increases credit risk. Banks closely observe repayment history and past dues to assess the reliability of the borrower.

2. CIBIL MSME Rank (CMR)
CIBIL MSME Rank (CMR) is a credit ranking system developed to evaluate the creditworthiness of MSME borrowers. It ranks MSMEs from CMR 1 (lowest risk) to CMR 10 (highest risk) based on their past credit behaviour. CMR helps banks predict the probability of default over the next 12 months. In this study, CMR acts as the main tool used by banks to screen MSME loan applications and identify risky borrowers at an early stage.

3. Business Vintage and Experience
Business vintage refers to the number of years an MSME has been operating. Older and experienced businesses are generally considered more stable because they have survived market fluctuations and competition. MSMEs with longer business experience usually show better financial discipline, stronger customer relationships and predictable income, which positively supports loan approval decisions.

4. Collateral Security
Collateral security includes assets offered by the borrower to secure the loan, such as property or machinery. While collateral reduces the bank's exposure in case of default, it does not eliminate credit risk completely. The study shows that even borrowers with strong collateral can turn into NPAs if repayment behaviour is weak. Therefore, collateral is treated as a supporting factor rather than the main decision criterion.

5. DPD (Days Past Due)
DPD indicates the number of days a borrower has delayed loan repayments. Higher DPD reflects poor repayment behaviour and financial stress. Even small delays can negatively affect the borrower's credit profile and CMR score. Banks treat high DPD as a serious warning signal and often reject loan applications where repayment delays are frequent.

6. AML and Legal Compliance
AML (Anti-Money Laundering) and legal compliance checks are critical non-financial factors in loan evaluation. Banks are strictly prohibited from lending to borrowers involved in suspicious transactions, court

cases, or regulatory violations. Even if the borrower has acceptable financial performance, AML alerts or legal disputes can lead to immediate rejection of the loan application.

7. MSME Loan Evaluation Process

The MSME loan evaluation process involves a combination of quantitative and qualitative assessment. Banks use CMR as a primary screening tool and then evaluate supporting factors such as cash flow, business experience, collateral, DPD and compliance status. This structured approach helps banks take objective and risk-controlled lending decisions.

8. MSME Loan Decision

The final MSME loan decision includes approval, rejection, loan amount sanctioned and applicable loan terms. Borrowers with low CMR scores and strong supporting factors generally receive loan approvals with better terms. On the other hand, borrowers with high CMR scores or serious risk flags are rejected or monitored closely to prevent future NPAs.

V. DATA ANALYSIS AND DESIGN

Application	CMR Rank	Loan Amount	Status	Industry Type	Remark
1.	6(Earlier) to 9(Later)	3 Cr.	NPA (Non-Performing Account)	Retail Fruits & Vegetables	Sanctioned and disbursed for 3 Cr with Collateral of 3.8 Cr with 2 Commercial Properties, However Customer got into DPD (Due Pass Date) of more than 365 Days. So banked has Marked him as NPA and CMR Raised to 9 from 6.
2.	4	6 Cr.	Approved	Maize Retailer & Distributor Domestically	Inline business from 9 years having good market caping of maize across Maharashtra
3.	3	9 Cr.	Approved	Manufacturing of Transformer work as a Govt. Contractor Under Electrical Depart.	Satisfactory account conducted with all the checks & 15 yrs in the same business.
4.	3	3 Cr.	Approved	Manufacturing of Wires & Cable	Satisfactory account conducted with all the checks & 8 yrs in the same business
5.	4	4 Cr.	Approved	Domestic Exporter of Rice & Wheat Grains	Works under Bank Guarantee associated to Govt. of Maharashtra under FSSAI, Satisfactory account with 10 yrs of domestic Experience.
6.	7	3 Cr.	Rejected	Electrical Product Trader	Due to CMR scale and not fit in the Credit balance of banks with higher DPD.
7.	2	4 Cr.	Approved	Manufacturing & Wholesaler of Electrical Materials	Satisfactory
8.	6	4 Cr.	Rejected	Cattle Industry	Case got rejected due AML (Anti-Money Laundering) and Having Cases in High Court.

9.	2	1 Cr.	Approved	2nd Hand Four-Wheeler Purchase & Sales	Satisfactory Account.
10.	2	50 lakhs	Approved	Onion Traders	Satisfactory Account & case approved under CGTMSE without any Collateral.

Key Learnings from the Case:

➢ CMR deterioration as an early-warning tool:
The sharp decline from CMR 6 to CMR 9 clearly indicated increasing repayment stress. This shows that CMR is an effective predictive tool for identifying accounts that may potentially slip into NPA.

➢ Collateral alone cannot mitigate credit risk:
Although the bank had collateral of ₹3.8 Cr—higher than the loan amount—the borrower's poor repayment discipline ultimately led to default. This highlights that strong collateral does not compensate for weak financial behaviour or poor cash flows.

➢ Importance of post-disbursement monitoring:
A rising CMR after loan disbursement is a red flag. Accounts with deteriorating CMR scores require closer monitoring, timely follow-ups, early intervention and corrective actions. Proactive measures could help prevent the account from slipping into NPA.

➢ Behavioural indicators matter:
The borrower's financial habits, cash flow issues and irregular repayments were reflected in the worsening CMR. Behaviour-based risk indicators often predict stress earlier than traditional financial ratios.

Analysis of CMR-Wise MSME Loan Applications:
The dataset shows the following distribution:

CMR Rank	Customer
1	0
2	3
3	2
4	2
5	0
6	2
7	1

Distribution of Applications by CMR Rank:

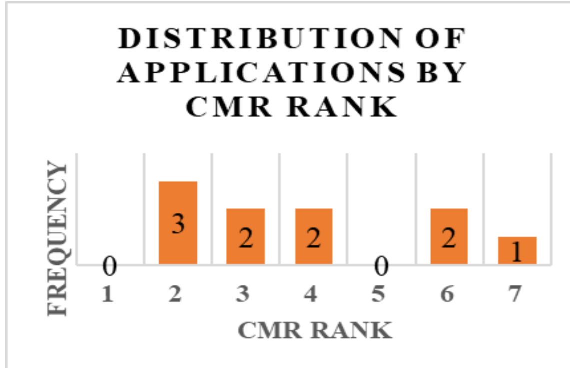


Fig 1

Interpretation

- A higher concentration of borrowers is in the low-risk segment (CMR 2–4).
- Only three customers fall in relatively risky categories (CMR 6–7).
- This indicates that the typical SME borrower base of YES Bank (from your sample) tends to belong to moderate to low-risk CMR levels.

Loan Approval vs Rejection:

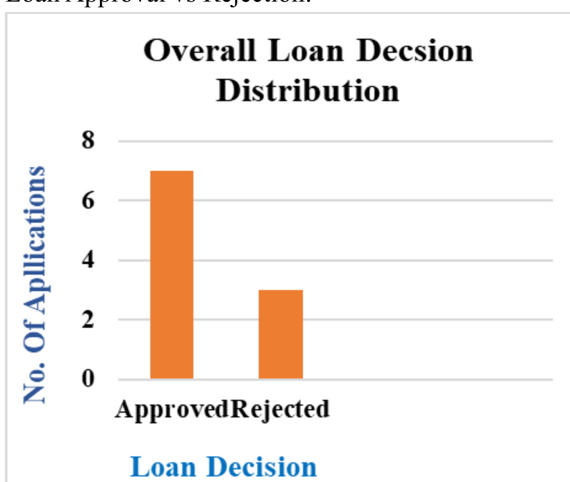


Fig 2

Out of 10 applications:

- 7 Approved
- 3 Rejected

1 due to high CMR (7)
1 due to AML issues
1 due to High DPD → NPA

Interpretation
- Approval rate = 70%
- Rejection rate = 30%
- CMR is not the only factor; external risk factors (AML, litigation, NPA behaviour) also influence decisions.

Average Loan Amount at Different CMR Levels:

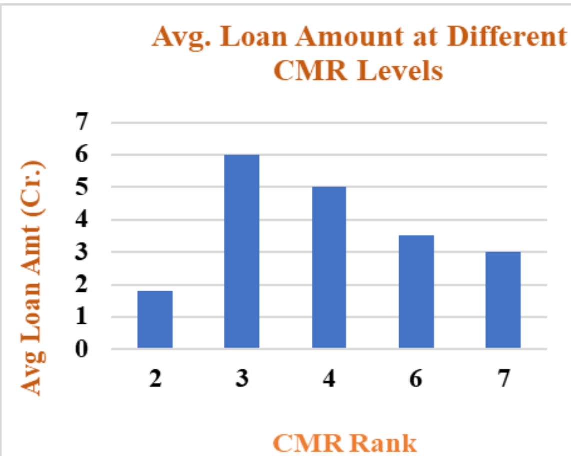


Fig 3

Observed trends:
- Lowest CMR (2 & 3) borrowers received higher average loan amounts.
- Higher CMR borrowers (6–7) received lower limits and higher rejection probability.

Interpretation
- Lower CMR ranks correlate with higher sanctioned amounts, validating the bank's credit policy.
- Borrowers at CMR 6 & 7 show reduced lending appetite from the bank → consistent with risk-based pricing.

VI. FINDINGS

From the study, it is clearly seen that the CIBIL MSME Rank (CMR) plays an important role in MSME loan decisions taken by banks. A clear pattern is noticed where MSMEs with good CMR scores usually get their loans approved, while MSMEs with poor CMR scores mostly face rejection.

Borrowers with CMR between 2 and 4 generally maintain good repayment habits and manage their business finances properly. These MSMEs were mostly approved for loans and, in some cases, were also given higher loan amounts. This shows that banks trust MSMEs that have a low-risk CMR.

It is also observed that MSMEs with more business experience have better chances of getting loans. When a business is running for many years and also has a good CMR score, banks feel more confident in lending. This means that business stability supports a good CMR in loan approval.

The study also shows that MSMEs with medium CMR scores (around 4) are not always rejected. If their cash flow is stable and banking behaviour is proper, banks still approve their loans. This shows that CMR is important, but it is not the only factor considered.

On the other hand, MSMEs with high CMR scores (6 and above) usually have delayed repayments and higher DPD. Such cases were mostly rejected, showing that a high CMR is a strong warning sign for banks.

It is also found that having collateral alone is not enough. Even when security is available, poor repayment behaviour can lead to loan default. In addition, MSMEs with AML issues or legal cases were rejected, even if their financial position looked acceptable.

Overall, the findings show that CMR is a useful and reliable tool, but banks always take the final decision by looking at CMR along with business performance, repayment behaviour and compliance checks.

VII. SUGGESTIONS

1. Strengthen monitoring of medium-risk CMR 4 borrowers to maintain financial stability.
2. Prioritize and fast-track lending for low-risk MSMEs with CMR 1–3.
3. Offer better loan terms to long-standing MSMEs with proven business performance.
4. Support compliant exporters with government backing by providing higher credit limits.
5. Avoid lending to high-risk CMR 6–7 customers due to high default probability.
6. Use CGTMSE actively to provide collateral-free loans to eligible MSMEs.
7. Implement early-warning systems to track DPD issues and prevent risky exposures.

8. Strengthen AML and legal due-diligence checks to eliminate non-compliant cases.
9. Provide quick processing and working capital support to low-risk traders.
10. Offer financial literacy and advisory support to medium and high-risk MSMEs to improve credit discipline

Scope for Further Research
- A larger sample size can provide deeper statistical insights.
- Comparison of CMR with other bank scoring models.
- Study on post-sanction monitoring effectiveness.
- Impact of economic cycles on CMR and MSME performance.

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