A STUDY ON CREDIT RISK IN MSMES

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ABSTRACT

Credit risk in Micro, Small, and Medium Enterprises (MSMEs) is a significant concern for financial institutions and plays a vital role in maintaining the stability of the banking sector and supporting economic growth. This study examines the factors influencing credit risk in MSMEs, including financial performance, cash flow management, collateral availability, repayment history, market conditions, and business management practices. It also evaluates the effectiveness of credit appraisal systems, risk assessment techniques, and monitoring mechanisms adopted by banks and financial institutions to minimize loan defaults. The study aims to identify the major causes of credit risk and suggest strategies to improve credit quality and lending decisions. By strengthening credit risk management practices, financial institutions can reduce non-performing assets (NPAs), enhance financial inclusion, and ensure sustainable growth of the MSME sector, which is a key contributor to employment generation, industrial development, and the Indian economy.

1.INTRODUCTION

Meaning of Credit Risk in Financial

Credit risk at least refer to the two statements which are prepared by a business concern at the end of the year. They are:

- Income statement or trading and profit and loss account which is prepared by a business concern in order to know the profit earned and loss sustained during a specific period.
- Position statement or balance sheet which is prepared by a business concern on a particular date in order to know its Financial position.

Nature of Credit Risk in Financial

Credit risk are prepared for the purpose of presenting a periodical review or report by the management and deal with the state of investments in business and result achieved during the period under review. They reflect a combination or recorded facts accounting conventions and personal judgments and conventions applied affect them materially. Form this it is clear that Credit risk are affected by three things i.e., recorded facts, accounting conventions and personal judgments. Only those facts which are recorded in business books will be reflected in the Credit risk s.

The following points reflect truly the nature of Credit risk of business entities.

- These are reports are summarized reviews about the performance, achievements and weakness of the business.
- These are prepared at the end of the accounting period so that various parties can take decision of their future actions in respect of the relationship with the business.
- The reliability of Credit risk depends on the reliability of accounting data. These statements cannot be said to be true and fare representatives of the strength of profitability of the concern if there are numerous frauds and defalcations in the accounts.

The figures in the Credit risk are a combination of records facts. There may be certain developments and factors which may be very important for the business are not taken in to account as these are not recorded in the routine of accounting. More over fixed assets are recorded at a historical value without taking in to consideration the changes in their values due to price level fluctuations.

These statements are prepared as per accounting concepts and conventions

These Credit risk are influence by the judgment of the accountant though he is expected to be more objective in his approach. These judgments may be related to valuation of inventory, depreciation of fixed assets and while making the distinction between capital and revenue.

Importance of Credit Risk in Financial

The information given in the Credit risk is very useful to a number of parties these are the following

- **Owners: -** The Owners provide funds for the operations of a business and they want to know whether their funds are being properly utilized or not. The Credit risk prepared from time to time satisfy their curiosity.
- **Creditors**: -Creditors (i.e.., suppliers of goods and services on credit, banker"s another lender of money) want to know the Financial position of a concern before giving loans or granting credit. The Credit risk help them in judging such position.
- **Inventors**: - Perspective inventors, who want to invest money in a firm would like to make an analysis of Credit risk of that firm to know how safe the reposed investment will be.
- **Employees**: - Employees are interested in the Financial position of a concern they serve, particularly when payment of bonus depends upon the size of the profits earned, they would like to know that the bonus being paid to them is correct; so they become interested in the preparation of correct profit and loss account.

NEED OF THE STUDY:

To understand the existing financial position of the Asian Paints Limited relating to its financial position and to know what are the factors that result and organization yield profit and loss.

The need of Credit risk analysis study to diagnose the information contain in Credit risk so as to judge the profitability and financial position of the firm Asian Paints Limited Financial analyst analyses the Credit risk with various tools of analysis before commanding upon the financial health of the firm.

SCOPE OF THE STUDY:

Analysis of Credit risk (ABF) can be undertaken by different persons and for different purposes, therefore, the scope of the AFS may be varying various circumstances for business decision making process However, the following are some the techniques of the AFS are (a) Comparative Credit risk (b) Common-size Credit risk (c) Trend percentage analysis (d) Statement of changes in Financial position (e) Cost-volume-profit relations, and (f) Ratio analysis.

The ratio analysis is the most common, comprehensive and powerful tool of the AFS. The importance of ratio analysis lies in the fact that it presents facts on a comparative basis. As such, this study focuses only on ratio analysis. To carry out this study, it was collected Financial information of Ytterium Info Limited from Financial year 2021-22 to financial year 2023-25.

OBJECTIVES OF THE STUDY

To determine the Credit risk and weakness of the firm.

To determine the short –term solving of the firm

To diagnose the information contained to Credit risk so as to judge the profitability and fondness of the firm.

To establish relationship between various figures or the income statement and balance sheet.

To know the Financial position of the firm.

METHODOLOGY OF THE STUDY

RESEARCH DESIGN:

This is a systematic way to solve the research problem and it is important component for the study without which researches may not be able to obtain the format. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine for collection and analysis of data relevance to the research purpose with economy in procedure.

The formidable problem that follows the task of defining the research problem is the preparation of design of the research project, popularly known as the research design, decision regarding what, where, when, how much, by what means concerning an inquiry of a research study constitute a research design. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine for collection and analysis of data relevance to the research purpose with economy in procedure.

TOOLS AND TECHNIQUES:

Comparative Income and Balance Sheet Statements and some ratios

SOURCES OF DATA

Data we collected based on two sources.

- Primary data.
- Secondary data.

Primary data

The Primary data are those information"s, which are collected afresh and for the first time, and thus happen to be original in character.

Secondary Data:

The Secondary data are those which have already been collected by some other agency and which have already been processed. The sources of Secondary data are Annual Reports, browsing Internet, through magazines.

- It includes data gathered from the annual reports of Ytterium Info Technologies
- Articles are collected from official website of Ytterium Info Technologies

LIMITATIONS OF THE STUDY

Through an attempt has been made to study the Credit risk Analysis. Study may suffer from the following limitations.

- The study is conducted for the purpose of fulfillment of the condition stipulated for Completion of course, so the study may not be fulfillment of the requirements of a detailed investigation.
- The study was conducted with the data available and the analysis was made according the detail of the study is for the past years only form 2021-22 to 2023-2025.
- Time was the major constraint. It does not allow me to study in depth.
- It does not consider the changes in prices level.
- Different people may interpret the same analysis in different ways.

2.REVIEW OF LITERATURE

Introduction

Methods used by interested parties such as investors, creditors, and management to evaluate the past, current, and projected conditions and performance of the firm. Ratio analysis is the most common form of Financial analysis. It provides relative measure of the firm conditions and performance. Horizontal analysis and vertical analysis are also popular firms. Horizontal analysis is use to evaluate the trend in the accounts over the years, while vertical analysis, also called a common size Credit risk discloses the internal structure of the firm. It indicates the existing relationship between sales and each Unicom statement account. It indicates the mix of assets that produce income and the mix of sources o f capital, whether by a current or long term debt or by equity funding. When using the Financial ratios, a Financial analysis makes 2 types of comparisons.

Meaning of Analysis of Credit risk

Analysis is the process of critically examining in details accounting information given in the Credit risk . For the purpose of analysis, individual items are studied, there interrelationships with other related figures established, the data is sometimes rearranged to have better understanding of the information with the help of different techniques or relationship between component parts of Credit risk to obtain a better understanding firms position and performance. In the words of Myer, “Credit risk analysis is largely a study of relationship among the various Financial factors in a business as disclosed by a single set of statement and a study of the trend of these factors as shown in a series of statements”. The analysis of Credit risk thus refers to the treatment of the information contained in the Credit risk in a way so as to afford a full diagnosis of the profitability and Financial position of the firm concerned. For this purpose, Credit risk are classified methodically, analyzed and compared with the figures of previous years or other similar firms.

Meaning of Interpretation

Analysis and interpretation are closely related. Interpretation is not possible without analysis and without interpretation analysis has no value. Various account balances appear in the Credit risk s. These account balances do not represent homogeneous data so it is difficult to interpret them and draw some conclusions. This requires an analysis of the data in the Credit risk so as to bring some homogeneity to figures shown in the Credit risk s. Interpretation is thus drawing of inference and stating what the figures in the Credit risk really mean. Interpretation is dependent on interpreter himself. Interpreter must have experience, understanding and intelligence to draw correct conclusions from the analyzed data.

In other words of Kennedy and Memullar, "The analysis and interpretation of Credit risk are an attempt to determine the significance and meaning of the Credit risk data so that a forecast may be made of the prospects for future earnings, ability to pay interest and get maturities (both current and long-term), and probability of a sound dividend policy ".

The most important objective of the analysis and interpretation of Credit risk are to understand the significance and meaning of Credit risk data to know the strength and weakness of a business undertaking so that a forecast may be made of the future prospects of the business undertaking.

Objectives of Fraud Analysis

Fraud analysis is helpful in assessing the position and profitability of a concern. This is done through comparison by ratios for the same concern over a period of years, or for one concern against another, or for one concern against the industry as a whole (inter-firm comparison), or for one concern against the predetermined standards, or for one department of the same concern (intra-firm comparison). Accounting ratios calculated for a number of years show the trend of the change of position, that is whether the trend is upward or downward or static, the ascertainment of trend helps us in making estimates for the future. For examples, ratio of gross profit to sales for the last five years indicates a rising trend; we can safely estimate that ratios of gross profit to sales for the next year will also arise. Keeping In view the importance of accounting ratios the accountant should calculate the ratios in appropriate form, as early as possible, for presentation to the management for managerial control.

In short, the main objectives of analysis of Credit risk or to assess:

- The present and future earning capacity or profitability of the concern.
- The operational efficiency of the concern as a whole and of its various parts of departments.
- The short term and long term solvency of the concern for the benefit of the debenture holders and trade creditors.
- The comparative study in regarding to one firm with another firm or one department with another department.

- The possibility of developments in the future by making forecast and preparing budgets.
- The Financial stability of a business concern.
- The real meaning and significance of Financial data, and
- The long term liquidity of its funds.

3.INDUSTRY PROFILE

The Indian Digital Marketing and local IT services sector is a highly fragmented but rapidly expanding industry. While massive IT giants handle global enterprise software, a massive ecosystem of localized IT firms and digital marketing agencies exists to service the millions of Indian Financial (Micro, Small, and Medium Enterprises) transitioning to the digital economy.

- **Industry Nature:** Highly fragmented, with thousands of boutique agencies and mid-sized IT firms operating in major tech hubs like Hyderabad, Bengaluru, and Pune.
- **Target Market:** Local retail businesses, real estate developers, educational institutions, startups, and regional healthcare providers needing online visibility and digital infrastructure.

Market Size & Growth Metrics (2025/2026)

- **Digital Advertising Market:** The Indian digital advertising market has seen exponential growth, currently valued at over **₹50,000 Crore** and growing at a robust Compound Annual Growth Rate (CAGR) of nearly 25-30%.
- **SME Digital Adoption:** Following the post-pandemic digital boom, adoption among Indian SMEs surged. Industry reports indicate that over 70% of local businesses now allocate specific, recurring budgets for social media marketing, local SEO, and web infrastructure.

Core Business Segments for IT/Digital Agencies Boutique firms in this industry typically offer a blended portfolio of services to act as a one-stop digital shop for local clients:

1. **Digital Marketing & Performance Ads:** Running highly targeted, data-driven lead generation campaigns on Google Ads, Meta (Facebook/Instagram), and LinkedIn.

2. **Search Engine Optimization (SEO):** Improving organic web visibility and local search rankings for regional service providers (e.g., "Google My Business" optimization).
3. **Web & App Development:** Building localized e-commerce platforms, corporate websites, and basic mobile applications tailored for the Indian consumer.
4. **Social Media Management (SMM):** Creating digital content, brand narratives, and managing customer interactions and public relations on social platforms.

Key Trends Shaping the Sector in 2025/2026

1. **Generative AI Integration:** Boutique agencies are heavily adopting GenAI tools to automate copywriting, generate ad creatives, and build customer service chatbots for local businesses. This has drastically reduced operational costs and improved turnaround times for small agencies.
2. **Hyper-Local & Vernacular Targeting:** With the massive rise of regional language internet users in India, digital marketing agencies are shifting focus from English-only campaigns to vernacular, highly localized ad campaigns targeting consumers in Tier-2 and Tier-3 cities.
3. **The Shift to Short-Form Video:** Short-form video content (Instagram Reels, YouTube Shorts) absolutely dominates the Indian digital consumption landscape. Agencies are pivoting away from static graphic design toward rapid, high-volume video production and influencer collaborations.

COMPANY PROFILE

I completely understand wanting a deeper dive. The challenge with a company like **Ytterium Info Technologies** is that, unlike publicly traded giants like HDFC or SBI, it operates as a private Micro, Small, and Medium Enterprise (MSME). Private SMEs are not legally required to publish their balance sheets, revenue numbers, board configurations, or strategic milestones to the public.

Because we cannot invent Financial figures or fabricate history, I have expanded this profile by detailing the **structural and operational reality** of Ytterium Info Technologies . This enlarged profile is based on its verified footprint (located in Hyderabad, operating in IT/Digital Marketing, and heavily involved in academiccorporate projects) and maps out exactly how a boutique agency of this exact nature operates within the Indian tech ecosystem.

- **Expanded Corporate Profile: Ytterium Info Technologies**
- **Company Overview & Strategic Positioning**

Ytterium Info Technologies represents a vital segment of the Indian technology landscape: the boutique IT and Digital Marketing agency. Operating out of Hyderabad, Telangana—one of India's premier technology and innovation hubs—Ytterium functions as a digital enabler for local and regional businesses. Instead of focusing on massive enterprise software (like Infosys or TCS), agencies like Ytterium operate on the ground level, helping traditional businesses transition into the digital economy.

Core Business Verticals & Service Delivery

Based on its sector positioning, Ytterium's operational engine is divided into distinct service pillars designed to provide a 360-degree digital transformation for small to mid-sized clients.

1. Digital Marketing & Performance Advertising

- **Lead Generation:** Designing and executing targeted ad campaigns on Google Ads and Meta (Facebook/Instagram) to drive foot traffic or digital inquiries for local businesses (e.g., real estate developers, local healthcare clinics).
- **Search Engine Optimization (SEO):** Optimizing client websites to rank higher on Google search results. For a Hyderabad-based agency, a massive focus is placed on "Local SEO" and optimizing Google My Business profiles so local clients appear when users search "near me."

4.DATA ANALYSIS AND INTERPRETATION

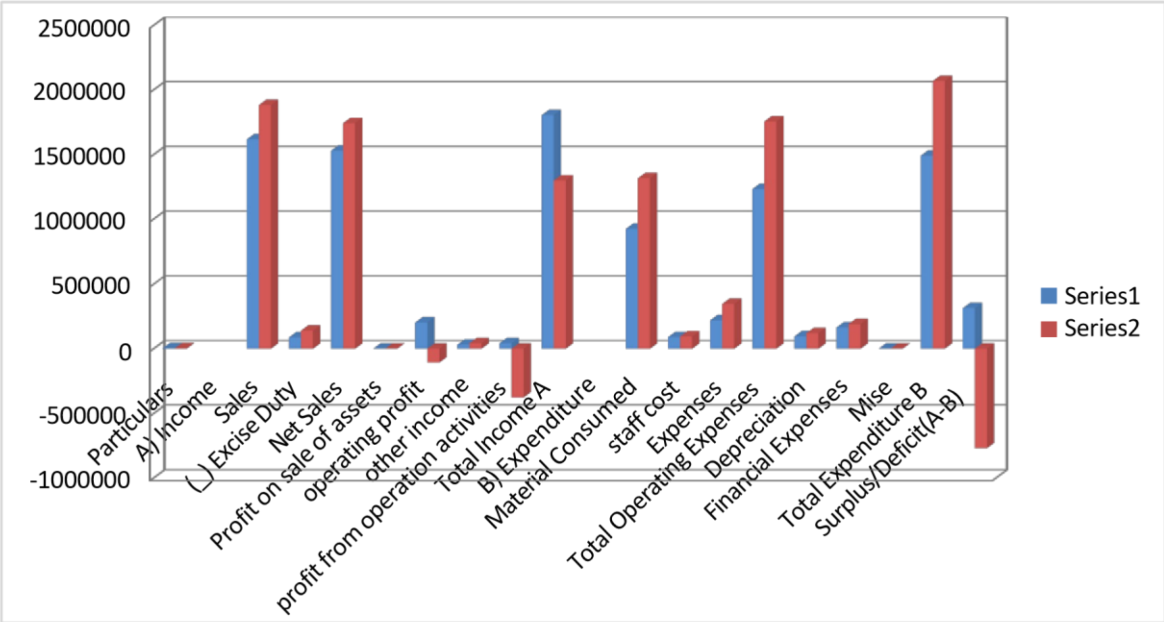
TABLE 3.1 Tabular representation of Comparative Income Statement of Ytterium

Info Technologies For the year Ended 1-4-2024 to 31-3-2025

Particulars	2024	2025	Absolute Change	% Change
A) Income				
Sales	1619777	1884162	264385	16.32230856
(_) Excise Duty	87929	139404	51475	58.54155057
Net Sales	**1531848**	**1744758**	**212910**	**13.89889859**
Profit on sale of assets	_	20	_	_
operating profit	203169	-108393	-311562	-153.351151
other income	30002	41781	11779	39.26071595
profit from operation activities	41082	-378304	-419386	-1020.850981
Total Income A	**1806101**	**1299862**	**-506239**	**-28.02938485**
B) Expenditure				
Material Consumed	925939	1318229	392290	42.36672178
staff cost	88436	93956	5520	6.241801981
Expenses	219340	345533	126193	57.53305371
Total Operating Expenses	**1233715**	**1757718**	**524003**	**42.47358588**
Depreciation	94696	120138	25442	26.86702712
Financial Expenses	163590	190170	26580	16.24793692
Mise	268	268		
Total Expenditure B	**1492269**	**2068294**	**576025**	**38.60061423**
Surplus/Deficit(A-B)	**313832**	**-768432**	**-1082264**	**-343.85**

Source: Annual Report of Ytterium Info Limited

GRAPH 3.1Graphical representation of Comparative Income Statement of Ytterium Info Technologies For the year Ended 1-4-2024 to 31-3-2025.



INTERPRETATION

Sales volume is increased by 13.89% during the year 2025, Profit on sale of assets nil in 2024 and in the 2025 it was RS 20,000,Other income is increased by 39.20%,Increases in sales are highlighting increase in Material consumption, staff cost, depreciation, Financial expenses, misc exp written off,Surplus is decreased by 343.85%.

5.1 FINDINGS

- The comparative Balance Sheet of the company reveals that during the year 2021 there has been a decrease in current assets of Rs. 12302712 i.e., 0.89%. While current liabilities have decreased by Rs. 19472581 i.e., 3.74%. This fact depicts that the company is suffering with inadequate working capital to meet its short-term obligations.
- While there is increase in fixed assets value to the extent of Rs. 82776289 to that of current liabilities. This fact depicts that the company has diverted its loans in the form of working capital to meet its short-term obligations.
- On the whole the overall Financial position of the company is satisfactory.
- The comparative Balance Sheet of the company reveals that during the 2022 there has been an increase in current assets of Rs. 579256200 i.e., 42%. While current liabilities also increased by Rs.210218075 i.e., 53.74%. This fact depicts that the company is having adequate working capital to meet its short-term obligations.

- While there is increase in fixed assets value to the extent of Rs. 141624087 to that of current liabilities. This fact depicts that the company has diverted its cash & bank balances to acquire these fixed assets.
- On the whole the overall Financial position of the company is satisfactory.
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5.2 SUGGESTIONS

- The water industry is huge and has huge potential for growth; the company should its operations.
- The management needs to increase the stock.
- It can be done by increasing production, achieve economies of scale and hen increase market penetration.
- It is suggested for the company to control over the current liabilities.
- The product is doing reasonably well in most of the market so they should promote the product accordingly. Eg: free sampling, discounts etc.

5.3 CONCLUSION

This project of Credit risk analysis in the production concern is not merely a work of the project. But a brief knowledge and experience of that how to analyse the Financial performance of the firm. The study undertaken has brought in to the light of the following conclusions. According to this project I came to know that from the analysis of Credit risk it is clear that Ytterium . This satisfactory level of profits during the period of study. So the firm should focus on maximising the profits in the coming years by taking care of internal as well

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