



CREDIT MONITORING ARRANGEMENT (CMA) DATA: MIRROR OF CREDITWORTHINESS

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Abstract

Credit Monitoring Arrangement i.e. CMA data is very important data for any financial organisation to know the existing financial position and projected financial position of Loan Applicant. It is very important data to make analysis usage of funds provided to loan applicant and to know maximum permissible finance to borrower. It is also very important for making systematic analysis of working management of borrower. In this article i have made analysis of importance of CMA data from bank perceptive and borrower perceptive also.

Objective

1. To gain Knowledge about the Credit Monitoring Arrangement analysis by banks
2. To aware general Loan applicators about impact of CMA data on Credit facility provided by banks and for banks to know which points are important to highlight for consideration to give credit facility.

Terminology

1. CMA DATA

CMA is abbreviation form of "Credit Monitoring Arrangement". is very important data to make analysis usage of funds provided to loan applicant and projected revenue cost analysis.

2. MPBF

It is abbreviation Form of "Maximum Permissible Bank Finance". It is the analysis of maximum permissible finance fro bank as per Tondon Committee and Nayak Committee

3. DSCR

It is abbreviation form of "debt service coverage ratio". The **debt service coverage ratio (DSCR)**, also known as "debt coverage ratio" (DCR), is the ratio of cash available for debt servicing to interest, principal and lease payments

General Contents of CMA Data

It includes the following data:

1. Profile of Loan applicator
2. Project Cost analysis
3. Sales Capacity Cost
4. Operating Cost Analysis
5. Balance Sheet analysis Of 5 To 7 Years
6. MPBF
7. DSCR calculation
8. Depreciation Schedule
9. Loan Amortisation Schedule
10. Current Cost Comparison
11. Ratio Analysis
12. Fund flow statement
13. Cash Flow Statements

Significance of CMA Data for Borrowers

CMA data is mirror of creditworthiness for borrower who wants to enjoy credit facility from banks. It is also important for renewal of existing credit facility with bank or to make top up loan on existing credit facility. It is the analysis of borrowers existing business position and estimated position of next 5 or 7 years.

Significance of CMA Data for Banks

Bank wants to decrease risk of default of loan. On the time, if any company is not in position to repay the loan. It becomes bad debt. But what is the real default behind this. Default is of bank who did not analyze the financial and solvency position of company. By getting CMA Data, banks expert will be in the position to go deeply. Every Rs. 1 of the bank is of customers. Customers mean you and me who deposit the money in the bank. So, every bank should demand CMA Data and analyze it deeply. Now, some CAs started to provide the service of providing and analyzing on the behalf of company and bank. So, their service can also be taken.

1. With balance sheet, bank will know the financial position. Is it sound or not? Will bank has own assets or all assets on debt. So, to study balance sheet is must. CMA Data will have more than 3 years balance sheet and projected balance sheet. So, analyst can make comparative balance sheet for knowing the changes in the balance sheet's position.

2. With fund flow statement, bank can know the flow of fund. Is company wasting their fund or applying fund for growing. So, it must be in CMA Data.

3. With profit and loss account study, bank will know performance of company. It also helpful to know earning cycle for paying the expenses.

4. With changes in working capital report, bank will know the changes in current assets and current liabilities. It will also helpful to know short term solvency of company. If it has enough money to pay current liabilities, it can not misuse its long term resources.

5. With ratio analysis, bank will understand the position of company more clearly within few minutes. Bank should ask the maximum permissible bank finance (MPBF). It means, What amount does a company want from bank? It should not more than 75% of working capital.

Summing Up

RBI has introduced this. Its aim is to protect the customers money which is deposited in bank. Bank should also study future projected income and financial position statements before giving any loan to any company. RBI has made also formats of all these data reports. Company should follow this for giving CMA Data to bank.

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