



CAMELS Rating:

Assessing Financial Stability, Systems & Internal Controls in Maharashtra State Credit Co-operative Societies

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Understanding the CAMELS Framework



Capital Adequacy

Sufficiency of capital buffer to absorb losses.



Asset Quality

Health of the loan portfolio, including Non-Performing Assets (NPAs).



Management

Effectiveness of governance and operational oversight.



Earnings

Profitability and sustainability of income streams.



Liquidity

Ability to meet short-term obligations and deposit withdrawals.



Systems and control

Analysis of internal controls and systems

- Chapter 11A “Non-Agricultural Credit Co-operative Societies” has been added to the Maharashtra State Co-operative Societies Act, 1960, wherein new section 144-2A to 144- 31A were added to the Act to regulate and supervise the conduct of Non-agricultural Credit Co-operative Societies.
- Maharashtra Non-Agricultural Credit Co-operative Societies Regulatory Board is formed in 2019 under the amended section 144 -13A
- Considering the changes in the Act, new Rating Mark Sheet for audit classification is introduced on 27.03.2024 vide circular issued by Co-operative Ministry Maharashtra State. This Marksheet is applicable from financial year 2024-25.

This circular gives all the formulas and explanations required to fill this Marksheet.

Capital Adequacy : Total marks : 100

CRAR – Capital Risk weighted Asset Ratio

- CRAR is the ratio that is used for accessing stability and financial health of the financial institution. It gives the capital adequacy to absorb loss and risk attached to the assets of the financial institutions. More the CRR, more stable the society.

- $CRAR = \text{Net owned Funds} / \text{Risk weighted assets}$

Net Owned Funds –

- Paid up Share capital
- + Free Reserves (Reserve Fund, Building Fund, Development Fund and other funds not created to meet outside liabilities)
- + Accumulated Profits
- + Profit for the year
- Accumulated losses

Risk Weighted Assets – The risk weights assigned to the assets are given in the circular. issued by Regulatory Body on 01.02.2024.

Approach to frame the CAMELS rating marksheet for Maharashtra Credit Co-operative Societies

Meticulously integrate all relevant regulatory, statutory, and internal framework.
Special attention should be paid to the following

- Maharashtra Co-operative Societies Act, 1960 (MCS Act) and Rules
- Relevant Circulars issued by the Maharashtra State Co-operative Department
- Circulars/Guidelines from the Maharashtra State Non-Agricultural Co-operative Societies Regulatory Body
- Bylaws of the Society
- Management Competence and Governance
- Systems Adopted by the Society
- Internal Controls

Capacity to increase Net worth –

- Share Linkage
- Transfer to Reserve Fund – Section 66 of MS Co-operative Societies Act, 1960
(Permission from Registrar in case of transfer less than 25% of Net profits)
- Raising other funds from Appropriation of profit as per Co-operative Act, Rules & Society Bye-laws. (Building fund etc.)

Increase in Paid-up Share Capital :

- Ideally share capital increase should be more than 10% as compare to previous year.

Increase in Own Funds:

- As compared to previous year ratio of increase in net owned funds to be arrive. Increase between 7.5% -5% implies stable financial condition of the society.

Asset Quality: - Total Marks – 100

- Net NPA : Total NPA-Provision for NPA.
- Gross NPA : Outstanding balance of NPA accounts as on date.
- NPA classification and provision for NPA is to be obtained from latest circular issued by Regulatory Board on 05.02.2024. This circular gives Prudential norms on NPA classification and income recognition.
- Recovery rate from NPAs at the end of the previous year in the current financial year.
- Credit appraisal and documentation :-

Proper documentation, proper appraisal, adherence to exposure norms (Exposure norms are specified in bye laws), Security valuation, Charge registration, Inspections carried out, Deductions from Loan amount, adherence to Interest rate restrictions (Secured loans 14% and unsecured loans 16%) Circular 2022 , Loan to Directors and relative 5% of Total loans. (relative u/s 75 (MSC Act)– father, mother, brother, sister, son, daughter, son in law, daughter in law)

Management: - Total Marks 100

- **Meeting Proceedings:** Notices, timely holding of AGM and directors meetings, sub-committees formation, conduct of meetings., adherence to Bye laws by Board of Directors and Manager with respect to duties and responsibilities, submission of minutes to Directors.
- **Expert Director :** Appointment of maximum of two expert directors are accepted as per bye-laws, having at least 5 years of experience in banking/law/accounting/chartered accountancy/managerial level in co-operative sector or as Board member. Attendance of expert Directors in Board meetings.
- **Co-operative Education and Training :** Training to Directors, Employees and Members of the Co-operative society.
- **Appointments of Manager/General Manager/Chief Executive Officer/Senior Officer :** appointment as per service rules, considering educational qualification, experience and technical ability.

- **Legal action on Doubtful Category of Non-Performing Assets (NPA):**
Recovery Certificates under Section 101 / Implementation of Awards under Section 99
- **Membership :**
Increase in number of members, adherence to rules of admission of member, Compliance of nomination formalities, Issuance of share certificates.
- **Board of Directors Election :**
If necessary compliance is done timely as per Act and Rules regarding Board of Directors' election

Earnings : Total Marks 100

- a. Ratio of Net Profit to Average Working Capital : Ideal ratio 1% . This ratio implies profitability of all assets.

Working Capital = Total of Balance sheet – Contra Items- Accumulated Losses.

- b. Ratio of Net Profit to Average Loans plus Investments : Ideal ratio more than 1.25%. This gives income earning capacity of Advances and Investments.

- c. Ratio of Net Profit to Own Funds : Ideal more than 10%. This ratio gives the percentage of net profits in owned funds. More is the ratio better is financial stability.

- d. Average Interest Margin: Average Borrowing rate – Average Lending rate. This is gross profit ratio (operating profit) and it is ideally 3%.

ABR =Average of Outstanding loans for 12 months/Average of interest received on advances for 12 months.

ALR = Average of Outstanding Deposits for 12 months/Average of interest paid on deposits for 12 months.

- e. Ratio of Retained Profit and Profit transferred to all Funds to Net Profit : More than 75%. Profits to be transferred to Reserve Fund, Building fund or other other funds. It gives long term financial stability to the society.

- e. **Ratio of Operating Profit to Average Working Capital:** More than 2% to absorb depreciation and NPA, Overdue interest provision and other statutory provisions.

Operating Profit = Net Profit before Depreciation, Provision for Bad and Doubtful Debts and Overdue interest and any other statutory provision.

- f. **Ratio of Management Expenses to Average Working Capital :** It should not be more than 2% of Working capital. Lower the management cost better is profitability.

Management Expenses = Administrative Expenses + Establishment expenses (Expenses other than Interest paid, Provisions and Depreciation)

- g. **Provisions:** If necessary provisions are made for performing and non-performing loans, investments, other assets, etc., as per provisions of Section 65, Rule 49A, and regulatory board circular instructions. Rule 49A gives calculation of Net profit ie how to arrive at profits. Provisions to be made before arriving at net profit are Provision for bad and doubtful debts; share capital Redemption Fund; Investment Fluctuations Fund; retirement benefits to the employees

Liquidity : Total Marks 100

- a. **Average Loan to Deposit Ratio (CD Ratio):** Ideal ratio 60-70% should not be less than 45% and more than 80%. Higher ratio suggest lesser liquidity buffer to repay demand liabilities. Lower ratio implies lower disbursement suggesting lower profitability as demand liabilities are higher than earning assets.
- b. **Statutory Liquidity Ratio (SLR) :** Ratio is to be maintained as determined by Regulatory Board as per latest circular issued minimum SLR should be 25% of total deposits and maximum SLR should be 40% of total deposits. This ratio ensures liquidity buffer in the business for repayment of demand Liabilities. (S 144-9A)
- c. **CRR : Cash reserve ratio :** Ratio is to be maintained as determined by Regulatory Board as per latest circular issued CRR should be maintained at 1% of total deposits. This ratio ensures short term liquidity buffer in the business.
- d. **Ratio of Term deposits to Total Deposits :** term deposits ration to total deposits should be less than 70%. More ratio implies lower profitability due to more high cost deposits. Percentage of low cost deposits should be maintained.
- e. **Ratio of Non-Performing Investments to Total Investments :** Ideal Ratio should be less than 5%
- f. **Average Increase in Deposits compared to previous year :** Ideal increase 15% increase as compared to last years deposits which implies growth in the business and trust of depositors on the society.

System and Control : Total Marks 100

- a. Maximum interest rate on deposits is adhered to as per regulatory board decisions.
- b. Contribution to Stabilization and Liquidity Support Fund is paid timely as per regulatory board decisions.
(Anshdan)
- c. Mandatory statements, MIS, and other information as per Section 79 (1A) and (1B) are submitted to the concerned Registrar within the prescribed period.
- d. Appointment of statutory auditor as per Section 75 (2A).
- e. Compliance of income tax, professional tax, and other applicable statements as per other laws.
- f. Functioning of the society is as per the objectives mentioned in its bye-laws.
- g. Submission of Rectification Report and defects rectified regards to departmental inspection report, internal audit report, system audit reports etc.
- h. Maintains account books as per Co-operative Act, Rules, and Bye-laws.

i. Computerization:

Internal control, branch control, inspection system are efficient, effective, and result-oriented.

Computerization of all branches including the head office

EDP and System Audit are done and deficiencies are rectified

Data security and backup provisions

Computer trained employees

j. Maintenance of member "I" form register and member "J" form list.

k. Balancing of share capital, all types of loans, deposits, interest receivable/payable, other receivables/payables, overdue interest provision, etc. (Lists should match Balance sheet)

l. Reconciliation of branch and head office accounts with no entries pending for more than three months.

m. Bank account reconciliation, with no entries pending for more than three months

- n. Security deposit and Fidelity Guarantee are taken from cash handling employees as per rules.
- o. Comprehensive insurance is taken for cash in hand, cash in transit, gold, etc. asset
- p. Employee service rules and provident fund rules are prepared and followed.
- q. Transfers of staff / changes in their work are made at regular intervals.
- r. All depositors of the institution are members.(Section 144-5A)
- s. Directors' deposits are taken as per bye-laws.
- t. Cash in hand is always kept within the limit as per bye-laws.
- u. Compliance with Know Your Customer (KYC) norms for members:

•**Weighted Average of marks obtained in the 6 categories: Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, and System & Control:**

Sr. No.	Particulars	Total Marks	Marks given by Auditor	Average Weightage	Marks as per Average Weightage
1	Capital Adequacy	100		15%	
2	Asset Quality	100		25%	
3	Management	100		15%	
4	Earnings	100		20%	
5	Liquidity	100		15%	
6	System & Control	100		10%	
Total Marks					
Total Marks Obtained					

b) Deductions from total marks obtained as per Weighted Average:

Sr. No.	Particulars	Marks to be deducted
1	If embezzlement / misappropriation / defalcation / misuse of funds is found in the institution during the audit period	5
2	If external loan raising limit is violated as per Rule 35 and Registrar's approval is not taken (Ten times of net owned Funds)	2
3	If arrears are above 5%	2
4	If bank account reconciliation statements are prepared but entries older than 3 months are pending	1
5	If head office and branch reconciliation statements are prepared but entries older than 3 months are pending	1
6	If lists of share capital, all types of loans, deposits, interest receivable/payable, other receivables/payables, overdue interest provision, etc., do not match with the balance sheet	2
7	If individual and group maximum loan limits (Exposure Limit) are violated	2
8	If government instructions are not followed while implementing one-time settlement schemes for overdue loan recovery	1
9	If investments are made in violation of Section 70, 144-9A, 144-10A, bye-law provisions, and regulatory board instructions, and also deposits from other credit societies	2
10	If property not required by the institution as per Section 144-7A is not disposed of within the period	2
11	If net profit/loss is determined without making all necessary provisions for performing and non-performing loans, investments, other assets, etc., as per Section 65, Rule 49A, and regulatory board circular instructions	2
12	If loans and other receivables of Board of Directors and their relatives are overdue and legal action has not been taken	2
13	If the institution engages in business other than that specified in Section 144-4A and activities other than those specified in Section 144-6A	2

c) Details of Marks

Sr. No.	Particulars	Marks
1	Marks obtained as per Weighted Average	
2	Marks to be deducted (-) as above	
3	Actual marks obtained by the institution (1-2)	

Audit Classification Year 2024-2025

After deducting the marks as mentioned above from the obtained marks, the actual marks obtained by the institution should be considered, and the audit classification should be awarded as follows

Sr. No.	Audit Classification Marks Details	Audit Class	Actual Audit Class obtained by the institution
1	If 75 and more marks are obtained	A	
2	If 61 to 74 marks are obtained	B	
3	If 51 to 60 marks are obtained	C	
4	If up to 50 marks are obtained	D	

Conclusion: Strengthening Maharashtra's Co-operative Sector

Robust CAMELS analysis drives informed decision-making, which is key to building depositor trust and financial resilience. Collaboration between CCS, members, and regulators is vital for a healthier CCS sector that supports rural and semi-urban economies.

