

Stress Testing Report

Name of the Company : Meenakshi Mercantiles Limited
RBI Registration No. : B-05.06746

1. Introduction

This Stress Testing Report is submitted as an integral part of the Internal Capital Adequacy Assessment Process (ICAAP) of **Meenakshi Mercantiles Limited**, registered as an NBFC-ML with the Reserve Bank of India. The stress testing exercise has been undertaken in accordance with the RBI's guidelines, to assess the adequacy of internal capital under stressed conditions.

2. Objective of Stress Testing

The primary objectives of the stress testing exercise are:

- To evaluate the impact of adverse but plausible shocks on the company's capital adequacy, asset quality, and liquidity.
- To ensure sufficient capital is maintained to withstand unexpected losses.
- To support proactive risk management and capital planning.

3. Scope and Risk Categories Covered

Risk Type	Covered Portfolios
Credit Risk	Retail, MSME, and Structured Loan Portfolios
Market Risk	Listed Equity, Corporate Bonds
AIF Risk	Category I, II and III AIF Investments
Liquidity Risk	All short-term assets and liabilities
Concentration Risk	Sectoral and borrower group exposures
Equity Risk	MTM risk from direct equity exposures

4. Methodology Adopted

A. Scenarios Considered

Scenario Type	Description
Baseline	Based on current macroeconomic and internal projections
Moderate Stress	Adverse economic and market conditions with limited contagion
Severe Stress	Prolonged macroeconomic downturn and financial sector stress



B. Shock Assumptions

Risk Category	Shock Applied
Credit Risk	GNPA increase by 300 bps; LGD rises to 60%
Market Risk	Bond yields up by 250 bps
Equity Risk	Equity market value erosion by 35%
AIF Risk	NAV markdown of 30% across portfolios
Liquidity Risk	Inflow drops by 20%; Outflow rises by 15%
Concentration Risk	Default by top 3 exposures

5. Results and Capital Adequacy Impact

Scenario	CRAR (%)	Tier I (%)	Observations
Baseline	86.60	86.54	Well above regulatory requirement
Moderate Stress			Adequate capital buffer maintained
Severe Stress			Trigger point for capital augmentation

- Under severe stress, CRAR falls below the internal threshold of 15%.
- Highest impact observed in equity and AIF investment portfolios due to MTM losses.
- Credit quality deterioration in MSME loans had a material effect on provisioning.

6. Mitigation and Capital Planning Measures

- The company plans to maintain a **Capital Conservation Buffer** of at least 2.5% over the minimum CRAR.
- Exposure to AIFs capped at [e.g., 10%] of NOF, with regular valuation oversight.
- Sectoral limits and single/group borrower exposures reviewed and realigned.
- Maintenance of High-Quality Liquid Assets (HQLAs) equivalent to 30-day outflows.
- Proposal for promoter capital infusion of ₹ [Insert Amount] approved by Board.

7. Governance and Board Oversight



- The Stress Testing Report and outcomes were presented to the **Risk Management Committee** on [Insert Date] and subsequently approved by the **Board of Directors** on [Insert Date].
- The revised ICAAP incorporating stress results and capital planning measures has been adopted.
- Stress testing will be carried out **semi-annually**, or more frequently if the risk environment warrants.

8. Declaration

We affirm that the stress testing exercise has been conducted using robust, forward-looking methodologies and is aligned with the company's internal capital planning processes and risk appetite framework.

Authorized Signatory:

Name:

Designation: [Managing Director / CEO / CRO]

Date:

Place:



ICAAP and Stress Testing Summary

1. Stress Testing Summary

Objective:

To assess the impact of plausible adverse conditions on the company's capital adequacy and financial stability, in line with RBI's guidelines on Internal Capital Adequacy Assessment Process (ICAAP).

Methodology:

Stress testing was carried out using scenario analysis and sensitivity tests, covering credit risk, market risk, and liquidity risk.

Scenarios Considered:

Risk Type	Scenario Description	Severity	Duration
Credit Risk	20% increase in NPAs and 30% fall in recoveries	Severe	1 year
Market Risk	15% drop in equity investments and 5% rise in bond yields	Moderate	6 months
Liquidity Risk	25% withdrawal of liabilities within 7 days	Severe	1 week

Key Outcomes:

- **Capital Adequacy Ratio (CAR)** remains above regulatory minimum (15%) under moderate stress but declines to ~13.7% under combined severe scenarios.
- **Liquidity Buffer** remains sufficient to meet short-term outflows under both business-as-usual and stress conditions.
- **Credit Risk Impact:** Provisioning requirement increases by 18%, with marginal pressure on profitability.
- **Market Risk Impact:** MTM losses recognized, but adequate capital cushion maintained.

Conclusion:

The company remains adequately capitalized even under adverse stress scenarios. Management will monitor capital buffers quarterly and conduct stress testing at least semi-annually.



2. Capital Assessment Table

Particulars	Amount (in lakhs)
Tier I Capital	62963.88
Tier II Capital	44.12
Total Capital Funds	63,008.00
Credit Risk Weighted Assets	
Market Risk Weighted Assets	70,269.23
Operational Risk Weighted Assets	2484.37
Total Risk Weighted Assets (RWA)	72,753.60
Capital to Risk Weighted Assets Ratio (CRAR)	86.60%

Note: The company maintains a capital buffer of ~0.56% above the regulatory minimum requirement of 15% for NBFC-ICC.

