

Tamilnad Mercantile Bank Limited

Tamilnad Mercantile Bank Ltd (TMBL), Incorporated in 1921, is a bank with strong presence in the state of Tamil Nadu with 369 branches, 949 ATM's and 255 Cash recycler machines (CRM's). TMBL's business is majorly driven by lending to MSME's customers along with Agriculture and Retail customers which combined contribute ~85% of total revenues. The bank reported deposits of ₹ 44,930 crore and advances of ₹ 33,490 crore as of March 2022. In fiscal 2022, TMB also reported a low credit cost ratio of 0.27%, along with that bank has also reported return on assets (ROA) of 1.66% and return on equity (ROE) of 16.58% which are better than the bank peers.

Positives: (a) Bank has reported strong growth in deposit and advances, from 2020-22 bank has reported growth in deposit of 10.46% and growth in advance of 9.93%. (b) Consistently growing customer deposit base with a focus on low-cost retail, current CASA ratio of 30.5%. (c) Bank consistently growing their customer base from 4.6 million customers in FY2020 to 5.08 in FY2022.

Investment concerns: (a) 70% of the loan book comes from MSME & Agricultural, in which credit risk is high. (b) Highly concentrated on one state that is Tamil Naidu, any natural calamity will impact the bank business adversely. (c) GNPA & NPA ratios have improved significantly in the last couple of years, any downturn in the economy will impact the bank.

Outlook & Valuation: In terms of valuations, the IPO is priced at price to book of 1.4 times and PE levels of 9.1 times at upper price band of the IPO. Company's consolidated revenue growth of 5% over FY20-22 but interest/discount on advances was of 4.1% over FY20-22. It will be challenging for the bank to grow its business in Tamil Naidu as well as new geographics. Looking at the current valuation of price to book of 1.4 times we believe that near term positive has been priced in the ipo price. Thus, we have a **NEUTRAL** rating on the issue.

Key Financials

Particular	2020	2021	2022
Total Business	65,061	72,511	78,681
Deposits	36,825	40,970	44,933
Net advances	27,716	31,070	33,492
Cost of deposits	6.3%	5.5%	4.9%
Yield on advances	10.2%	9.7%	9.5%
Credit cost	1.5%	1.4%	0.6%
Net interest margin	3.6%	3.8%	4.1%
Return on assets	1.0%	1.3%	1.7%
Return on equity	10.7%	14.1%	16.6%
CASA to total deposits ratio	25.9%	28.5%	30.5%
Cost to income ratio	46.1%	44.9%	42.1%

Source: Company, Angel Research

NEUTRAL

Issue Open: September 05, 2022

Issue Close: September 07, 2022

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹ 143cr

Offer for Sale: ₹ 0 cr

Fresh issue: ₹ 832cr

Post Eq. Paid up Capital: ₹ 158cr

Issue size (amount): ₹ 832cr

Price Band: ₹500- ₹525

Lot Size: 28 shares and in multiple thereafter

Post-issue mkt. cap: * ₹7,818cr - ** ₹8,314cr

Promoters holding Pre-Issue: 0%

Promoters holding Post-Issue: 0%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	0.0%
Public	100.0%

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Company background

Tamilnad Mercantile Bank Ltd (TMBL), Incorporated in 1921, is a bank with strong presence in the state of Tamil Nadu with 369 branches, 949 ATM's and 255 Cash recycler machines (CRM's). TMBL's business is majorly driven by lending to MSME's customers along with Agriculture and Retail customers which combined contribute ~85% of total revenues.

Bank's deposits have grown at a healthy pace of 10.46% CAGR (compared to median of its peers 7.90%), while its advances grew at 9.93% CAGR (compared to median of its peers: 8%). As of March 31, 2022, their deposits and advances portfolio in the state of Tamil Nadu has contributed 75.06% to their Total Business. They also focus on diversifying their growth in other high growth regions of India which will help increase their network and client base. Other than Tamil Nadu, they are present in 15 other states and 4 union territories of India. Apart from Tamil Nadu, they have sizable presence in the states of Maharashtra, Gujarat, Karnataka, and Andhra Pradesh

Customer wise break-up

Bank Asset Products target the RAM customers, which include MSMEs, agricultural customers, retail customers, and their corporate customers. The information in relation to their advance portfolio for asset products as of March 31, 2022,

Exhibit 1: Loan Book

Category of Loan Portfolio	Amount Outstanding (₹ Cr)	% of Total Advances	Average ticket size (₹ Cr)
MSMEs	12,615	37.38	0.19
Agricultural customers	10,022	29.70	0.01
Retail customers	6,882	20.39	0.05
Corporate customers	4,227	12.53	0.57
Total	33,748	100.00	0.03

Source: Company, Angel Research

Issue details

The IPO is made up entirely of Fresh issue of 15,840,000 shares making the total Issue size of ₹832cr

Pre & Post Shareholding

Particulars	(Pre-Issue)		(Post-Issue)	
	No of shares	%	No of shares	%
Promoter	0	0%	0	0%
Public	14,25,11,454	100%	15,83,51,454	100%
Total	14,25,11,454	100%	15,83,51,454	100%

Source: Company, Angel Research

Objectives of the Offer

The net proceeds from the issue will be utilized for the following purposes:

- To augment tier-I capital base to meet future capital requirements.
- To receive the benefits of listing the shares on the stock exchanges.

Kay Managerial Personnel

- K V Rama Moorthy is the MD & CEO of the Bank. He has over 40 years of banking experience, including in Bank of Baroda and as an Executive Director in United Bank of India. Prior to joining the Bank, he was Executive Director in United Bank of India till 2017.
- Krishnan Sankarasubramaniam* The Board, pursuant to its resolution has appointed Krishnan Sankarasubramaniam as the Managing Director & CEO with effect from September 4, 2022. Prior to joining the Bank, he was associated with Indian Bank, Syndicate Bank (which was merged into Canara Bank) and Punjab and Sind Bank.
- Niranjan Sankar A is the Non-Executive Director of the Bank. He has over 22 years of experience in small scale undertakings.
- S R Ashok is the Non-Executive Director of the Bank. He is a doctor by profession and presently serves at the Thoothukudi Medical College Hospital.
- Asok Kumar P C G is the Non-Executive Director of the Bank. He has over 25 years of experience investing in the stock market.

Financial Summary

Income Statement (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
INCOME			
Interest earned	3,466	3,609	3,834
Interest Expended	2,147	2,072	2,019
Net Interest Income	1,320	1,538	1,815
% chg		17%	18%
Other Income	526	644	823
Total Income	1,846	2,182	2,638
Operating Expenses	851	980	1,111
Cost to Income (%)	46%	45%	42%
PPoP (Operating Profit)	995	1,202	1,527
Provisions & Contingencies	410	404	402
PBT	585	798	1,125
current tax	156	192	293
deferred tax	21	3	10
Total Taxes	177	195	303
PAT	408	603	822
% chg		48%	36%
EPS	2.86	4.23	5.77

Source: Company, Angel Research

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY'20	FY'21	FY'22
Sources of Funds			
Capital	143	143	143
Reserves & Surplus	3,837	4,437	5,193
Total Equity	3,980	4,580	5,336
Deposits	36,825	40,970	44,933
Borrowings	324	0	0
Other Liabilities and Provisions	1,630	1,977	2,590
Total Liability & Equity	42,759	47,527	52,858
Application of Funds			
Cash with RBI	1,414	1,680	2,113
Balances with Banks	2,322	1,025	1,739
Investments	9,467	11,703	13,035
Advances	27,716	31,070	33,492
Fixed Assets	128	137	211
Other Assets	1,711	1,912	2,269
Total Assets	42,759	47,527	52,858

Source: Company, Angel Research

Return on Equity (ROE)

Particular	2020	2021	2022
Interest Income	8.1%	7.6%	7.3%
Interest Expenses	5.0%	4.4%	3.8%
Net Interest Income	3.1%	3.2%	3.4%
Non Interest Income	1.2%	1.4%	1.6%
Total Income	4.3%	4.6%	5.0%
Operating Cost	2.0%	2.1%	2.1%
PPoP	2.3%	2.5%	2.9%
Provisions	1.0%	0.8%	0.8%
PreTax Profit	1.4%	1.7%	2.1%
Tax	0.4%	0.4%	0.6%
ROA	1.0%	1.3%	1.6%
Leverage	10.74	10.38	9.91
RoE (%)	10.2%	13.2%	15.4%

Source: Company, Angel Research

Key Performance

Particular	FY20	FY21	FY22
Total Business	65,061	72,511	78,681
Deposits	36,825	40,970	44,933
Credit to deposit ratio	75.3%	75.8%	74.5%
Cost of deposits	6.3%	5.5%	4.9%
Net advances	27,716	31,070	33,492
Yield on advances	10.2%	9.7%	9.5%
Credit cost	1.5%	1.4%	0.6%
Net interest income	1,320	1,538	1,815
Net interest margin	3.6%	3.8%	4.1%
Operating profit	995.0	1202.2	1526.8
Net profit	407.7	603.3	821.9
Return on assets	1.0%	1.3%	1.7%
Return on equity	10.7%	14.1%	16.6%
CASA to total deposits ratio	25.9%	28.5%	30.5%
Cost to income ratio	46.1%	44.9%	42.1%

Source: Company, Angel Research

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