

# IPO Note: Tamilnad Mercantile Bank Ltd.

Industry: Bank

Reco: Subscribe

Date: September 05, 2021

Issue Snapshot		Issue Break up		
Company Name	Tamilnad Mercantile Bank Ltd.	QIB ex Anchor	30%	4,752,000
Issue Opens	September 05, 2022 to September 07, 2022	Anchor Investor	45%	7,128,000
Price Band	Rs. 500 to Rs. 525	HNI<Rs. 10 Lakhs	5%	792,000
Bid Lot	28 Equity Shares and in multiples thereof.	HNI>Rs. 10 Lakhs	10%	1,584,000
The Offer	Public issue of 15,840,000 Equity shares of Face value Rs. 10 each, (Comprising of fresh issue).	RII	10%	1,584,000
Issue Size	Rs. 792.0 – 831.6 Crore	<b>Total Public</b>	<b>100%</b>	<b>15,840,000</b>
IPO Process	100% Book Building			
Face Value	Rs. 10.00	Equity Share Pre Issue (Nos. Cr.)		14.3
Exchanges	NSE & BSE	Fresh Share (Nos. Cr.)		1.6
BRLM	Axis Capital Ltd, Motilal Oswal Investment Advisors Ltd, SBI Capital Markets Ltd	Equity Share Post Issue (Nos. Cr.)		15.8
Registrar	Link Intime India Private Ltd	Market Cap (Rs. Cr.)		8,313.5
		Equity Dilution		10.0%

## Objects of the Offer

### Fresh Issue

- Augmenting its Tier – 1 capital base to meet its future capital requirements; and
- General corporate purposes.

## Company Highlights

- Tamilnad Mercantile Bank Ltd. (TMB) is one of the oldest and leading old private sector banks in India with a history of almost 100 years. The bank offers a wide range of banking and financial services primarily to micro, small and medium enterprises (MSME), agricultural and retail customers (RAM).
- TMB was incorporated as 'Nadar Bank Limited' in 1921 and their name was changed to 'Tamilnad Mercantile Bank Limited' in the year 1962. The bank received the license to carry on banking business from the Reserve Bank of India in 1962.
- Since the incorporation, having head quartered at Thoothukudi, Tamil Nadu, India, the bank has built a strong presence in the state of Tamil Nadu., with 369 branches and 949 automated teller machines (ATMs) and 255 cash recycler machines (CRMs), 91 E-Lobbies, 3,939 PoS as of March 31, 2022.
- As of March 31, 2022, the bank has 509 branches, of which 106 branches are in rural, 247 in semi-urban, 80 in urban and 76 in metropolitan centres. TMB overall customer base is approximately 5.08 million as of March 31, 2022 and 4.05 million or 79.78% of the customers have been associated with them for a period of more than 5 years and have contributed to Rs. 35,014.24 crore or 77.93% to the deposits and Rs. 21,902.23 crore or 64.90% to the advances portfolios as of March 2022.
- The bank also focusses on diversifying the growth in other high growth regions of India which will help increase the network and client base. Other than Tamil Nadu, the bank is present in 15 other states and 4 union territories of India.
- Apart from Tamil Nadu, the bank has sizable presence in the states of Maharashtra, Gujarat, Karnataka, and Andhra Pradesh with presence across 90 branches and 125 ATMs and 18 CRMs as of March 31, 2022.

- The bank has also been consistently growing the customer base from approximately 4.66 million as of March 31, 2020 to approximately 4.91 million as of March 31, 2021 to approximately 5.08 million as of March 31, 2022 at the CAGR of 4.36% from FY20 to FY22.
- TMB focus on quality of service and nurturing long term relationship with their customers has enabled the bank to develop a well-recognized and trusted brand in south India, particularly in Tamil Nadu, India.
- The bank had the 2nd highest Net Profit for FY22 amongst the Peers, and the Return on Assets was also higher at 1.66% compared to a median 0.80% for the Peers for FY22. The bank's Return on Equity ratio stood at 16.58% in FY22, while its peers reported a median of 8.30%. TMB is also well-capitalised with a tier-1 capital adequacy ratio of 20.44%.
- 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, the deposits and advances portfolio in the state of Tamil Nadu has contributed 75.06% to their Total Business.

## View

Tamilnad Mercantile Bank Ltd. is one of the oldest private sector banks in India with a history of almost 100 years and having 509 branches (of which 106 branches are in rural, 247 in semi-urban, 80 in urban and 76 in metropolitan centres) as of March 31, 2022. The bank is focused and concentrated in South India and accounting for 82% of the branches, albeit the bank has been diversifying in other regions like Maharashtra, Gujarat, Karnataka as well as Andhra Pradesh. However, Tamil Nadu alone accounted for 75% of the business of the bank in FY22 and 85% of the customer base. Bank's advances portfolio is primarily concentrated to (a) Retail customers; (b) agricultural customers and (c) MSMEs together popularly known as "RAM" and accounting for 37.38%, 29.70% and 20.39% respectively of total advances as of March 31, 2022. Corporate customers account for 12.53% of total advances; however, management has a focus towards RAM segment and to move away from corporate customers. Bank has majorly focused on secured lending which accounts for 99.17% of overall advances (in FY22), thus resulting in strong asset quality over the years and GNPA/NNPA ratios for FY22 stands at eye catching 1.69%/0.95%. GNPA ratio for RAM portfolio remains the key strength and stands at 1.45% as of March 31, 2022 while the same for corporate stood at 3.36%. The bank has always maintained a policy of ~80% or more provision coverage over NPAs and the same stood at 87.92% as of FY22. Overall business/net advances grew at a CAGR of 10% each between FY20 and FY22. Despite the loan book being almost secured, yield on advances are significantly higher at 9.45% for FY22 and the bank has certainly managed its cost of deposits brilliantly, as NIM has expanded from 3.64% in FY20 to 4.10% in FY22. Albeit cost to income ratio is slightly on the higher side, bank has been taking efforts to reduce the same from 46.1% in FY20 to 42.12% in FY22. The same is reflected in relative outperformance in operating profit growth at a CAGR of 24% as against CAGR of 17% for Net interest income (NII) between FY20 and FY22. Since, asset quality improved between FY20 and FY22, bank didn't have to provide aggressively albeit PCR remained strong. The resultant net profit growth was hence much higher at a CAGR of 42% between the same periods. Needless to say, Return on Assets (ROA) improved drastically between the periods courtesy net profit growth. ROA for FY22 was at 1.66% higher than 1.34% in FY21 and 0.99% in FY20. Thus, the bank has ticked all the right boxes and albeit the Capital Adequacy Ratio (CAR) of the bank stood at 22.06% as of FY22, the IPO proceeds will add growth capital which could be deployed for further growth. Due to RBI's direction for listing, its branch expansion plan was on hold, but once it gets listed, it will expand its network. TMB can be a good investment avenue owing to its better growth with healthy asset quality, robust risk management system, equipped with basic retail banking infrastructure, and sizeable market to grow. In terms of the valuations, on the higher price band, TMB demands a P/B multiple of 1.35x based on FY22 post issue fully diluted BV. On all parameters, except the pending legal matter, this issue looks attractively priced and holds good future prospects. Hence, it is recommended to "SUBSCRIBE" the issue from the long term perspective.

## Industry Overview

(In Rs. Cr. unless Stated)

Parameters (FY22)	TMB	City Union	Catholic Syrian	DCB	Federal	Karur Vysya	Karnataka Bank	RBL	South Indian
<b>Advances and Deposits</b>									
Deposits	44,933.1	47,689.7	20,188.3	34,691.7	181,700.6	68,676.3	80,386.8	79,006.5	89,142.1
CASA/Total Deposits	30.50%	32.56%	33.66%	26.75%	36.94%	34.81%	33.00%	35.29%	33.21%
Advances	33,491.5	40,358.5	15,814.7	29,095.8	144,928.3	55,334.6	56,783.1	60,021.8	59,993.4
Deposits CAGR FY20-22	10.46%	8.07%	13.07%	6.88%	9.23%	7.82%	5.82%	16.90%	3.61%
Advances CAGR FY20-22	9.93%	9.07%	17.96%	7.14%	8.87%	9.56%	-0.20%	1.71%	-3.51%
Net Profit	821.9	760.2	458.5	287.5	1,889.8	673.3	508.6	-74.7	45.0
Net Profit CAGR FY20-22	41.99%	26.30%	NM	-7.76%	10.68%	69.25%	-6.62%	NM	-34.42%
<b>Operating Profitability</b>									
Yield on advances	9.45%	9.36%	11.21%	10.71%	7.92%	8.47%	8.84%	12.22%	8.73%
Cost of deposits	4.91%	4.68%	4.31%	6.05%	4.28%	4.30%	4.66%	4.81%	4.75%
Net interest margins	4.10%	3.98%	5.27%	3.56%	3.16%	3.69%	3.18%	4.40%	2.62%
Cost-to-income	42.12%	40.37%	50.51%	55.40%	59.89%	53.20%	52.57%	56.90%	64.10%
Net profit margin	17.65%	15.62%	17.60%	7.30%	12.00%	10.60%	7.21%	-0.10%	0.10%
<b>Profitability</b>									
Credit costs/total assets	0.27%	1.00%	0.30%	0.91%	0.50%	0.90%	0.90%	2.70%	1.30%
Return on assets	1.66%	1.32%	1.88%	0.68%	0.89%	0.87%	0.57%	-0.07%	0.05%
Return on assets (FY20-22 avg)	1.32%	1.16%	1.00%	0.82%	0.88%	0.57%	0.62%	0.35%	0.07%
Return on equity	16.58%	12.23%	18.98%	7.37%	10.82%	9.25%	7.40%	-0.59%	0.77%
Return on equity (FY20-22 avg)	13.17%	10.76%	10.28%	9.44%	10.79%	6.05%	9.05%	3.16%	1.33%
Tier-1 capital adequacy ratio	20.44%	19.80%	24.40%	15.80%	14.40%	17.50%	12.70%	16.20%	13.20%
<b>Asset quality</b>									
GNPA	570.9	1933.2	289.5	1289.9	4136.7	3431.0	2250.8	2728.4	3648.1
GNPA (%)	1.69%	4.70%	1.81%	4.32%	2.80%	5.96%	3.90%	4.40%	5.90%
NNPA	317.6	1191.1	107.0	573.2	1392.6	1260.8	1377.0	806.6	1777.8
NNPA (%)	0.95%	2.95%	0.68%	1.97%	0.96%	2.28%	2.42%	1.34%	2.97%
Provision coverage ratio (PCR)	87.92%	64.00%	89.70%	67.84%	65.54%	80.27%	73.47%	70.40%	69.55%

## Performance of the bank over last 3 years

Year	Net Worth	Deposits	Net Advances	Total Income	Net Profit	Dividend Paid (%)	No. of Branches	No. of Employees
2019-20	3,979.7	36,825.0	27,715.8	3,992.5	407.7	32%	509	4,325
2020-21	4,580.0	40,970.4	31,069.6	4,253.4	603.3	0%	509	4,363
2021-22	5,335.7	44,933.1	33,491.5	4,656.4	821.9	50%	509	4,457

## Total Advance

Category of Loan Portfolio	Amount Outstanding (Rs Cr)	% of Total Advances	Average ticket size (Rs Cr)
RAM customers			
- MSMEs	12,615.2	37.4%	0.19
- Agricultural customers	10,022.9	29.7%	0.01
- Retail customers	6,882.5	20.4%	0.05
Corporate customers	4,227.7	12.5%	0.57
Total	33,748.2	100.0%	0.03

## Total Deposits

Metric	FY20		FY21		FY22	
	Balance O/S	% of Total	Balance O/S	% of Total	Balance O/S	% of Total
Demand Deposit	2,994.7	8.1%	3,596.3	8.8%	4,330.1	9.6%
- From Banks	0.1	0.0%	0.1	0.0%	0.1	0.0%
- From Others	2,994.5	8.1%	3,596.2	8.8%	4,330.0	9.6%
Savings Deposits	6,523.4	17.7%	8,089.0	19.7%	9,375.1	20.9%
CASA	9,518.1	25.9%	11,685.3	28.5%	13,705.2	30.5%
Term Deposits	27,307.0	74.2%	29,285.2	71.5%	31,228.0	69.5%
From Banks	0.0	0.0%	0.0	0.0%	0.0	0.0%
From Others	27,307.0	74.2%	29,285.2	71.5%	31,228.0	69.5%
Total Deposits	36,825.0	100.0%	40,970.4	100.0%	44,933.1	100.0%

## Key Operational and Financial Performance

(In Rs. Cr unless Stated)	FY20	FY21	FY22
Total Business	65,061.2	72,511.5	78,681.3
Deposits	36,825.0	40,970.4	44,933.1
Credit to deposit ratio	75.3%	75.8%	74.5%
Cost of deposits	6.3%	5.5%	4.9%
Net advances	27,715.8	31,069.6	33,491.5
Yield on advances	10.2%	9.7%	9.5%
Credit cost	1.5%	1.4%	0.6%
Net interest income	1,319.5	1,537.5	1,815.2
Net interest margin	3.6%	3.8%	4.1%
Operating profit	995.0	1,202.2	1,526.8
Net profit	407.7	603.3	821.9
Net worth	3,979.7	4,580.0	5,335.7
Return on assets	1.0%	1.3%	1.7%
Return on equity	10.7%	14.1%	16.6%

## Key Operational and Financial Performance

(In Rs. Cr unless Stated)	FY20	FY21	FY22
CASA to total deposits ratio	25.9%	28.5%	30.5%
Cost to income ratio	46.1%	44.9%	42.1%
Gross NPA	3.6%	3.4%	1.7%
Net NPA	1.8%	2.0%	1.0%
PCR Ratio	80.8%	79.5%	87.9%
Capital Adequacy (%)	16.7%	18.9%	22.1%
<b>Yields, Spreads and Margins</b>			
Interest/Discount on Advances/Bills	2,701.1	2,811.4	2,952.8
Income on Investments	710.1	750.4	822.5
Interest on balances with RBI and other inter-bank funds	40.2	35.5	49.7
Others	14.7	11.8	8.9
<b>Interest Income</b>	<b>3,466.1</b>	<b>3,609.1</b>	<b>3,833.9</b>
Average Interest Earning Assets	36,266.7	40,755.5	44,301.3
Interest Expense	2,146.6	2,071.5	2,018.6
Average interest bearing Liabilities	34,227.6	37,828.2	41,199.3
Net Interest Income	1,319.5	1,537.5	1,815.2
Pre provisioning operating profit	995.0	1,202.0	1,526.8
Pre provisioning Operating Profit margin as % of Average Total Net Assets	2.4%	2.7%	3.1%
Average Net Total assets (Net of Revaluation Reserve)	41,146.9	44,904.9	49,372.8
Average Share Capital & Reserves (Net of Revaluation Reserve)	3,799.0	4,279.8	4,957.8
Average interest earning assets as % of average net total assets	88.1%	90.8%	89.7%
Average interest bearing liabilities as % of average net total assets	83.2%	84.2%	83.5%
Average interest earning assets as % of average interest bearing liabilities	106.0%	107.7%	107.5%
Yield	9.6%	8.9%	8.7%
Average Cost of Loan Funds	6.3%	5.5%	4.9%
Credit Cost (Total provisioning for NPA /Average Advances)	1.5%	1.4%	0.6%
Spread	3.3%	3.4%	3.8%
Net Interest Income/Average earning assets	3.6%	3.8%	4.1%
Non-Interest Income	526.4	644.4	822.6
Non-Interest Income / Average Total Net Assets	1.3%	1.4%	1.7%
Return on average net total assets	1.0%	1.3%	1.7%
Average Share Capital & Reserves to Average Total Net Assets	9.2%	9.5%	10.0%
Profit Available for Equity shareholders to Average Equity Shareholders fund	10.7%	14.1%	16.6%
Cost to Income (operating exp / (total income - interest expenses)	46.1%	44.9%	42.1%
Credit to Deposit (Advances / Deposits)	75.3%	75.8%	74.5%

## Financial Statement

(In Rs. Cr)	FY20	FY21	FY22
Share Capital	142.5	142.5	142.5
Net Worth	3979.6	4580.0	5335.7
Deposits	36825.0	40970.4	44933.1
Borrowings	324.0	0.0	0.0
Investments	9467.3	11703.2	13035.5
Advances	27715.8	31069.6	33491.5
Total Assets	42758.8	47527.2	52858.5
Interest earned	3466.1	3609.1	3833.9
Interest expended	2146.6	2071.5	2018.6
Net Interest Income	1319.5	1537.5	1815.2
Non Interest Income	526.4	644.3	822.6
Net Profit	407.7	603.3	821.9
Earnings Per Share (Rs.)	28.6	42.3	57.7
Return on Networth (%)	10.2	13.2	15.4
Net Asset Value per Share (Rs.)	279.3	321.4	374.4

Source: RHP, Ashika Research

## Cash Flow Statement

(In Rs. Cr)	FY20	FY21	FY22
Cash flow from Operations Activities	567.4	(670.4)	1325.0
Cash flow from Investing Activities	(20.2)	(37.1)	(106.8)
Cash flow from Financing Activities	269.0	(324.0)	(71.3)
Net increase/(decrease) in cash and cash equivalents	816.2	(1031.5)	1146.9
Cash and cash equivalents at the beginning of the year	2920.4	3736.6	2705.1
Cash and cash equivalents at the end of the year	3736.6	2705.1	3852.0

Source: RHP

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