

Company Overview

Earlier incorporated as 'Nadar Bank Limited' in 1921, Tamilnad Mercantile Bank is one of the oldest and leading old private sector banks in India, with a history of close to 100 years and receiving its license to carry on banking business from the Reserve Bank of India (RBI) in 1962. Tamilnad Mercantile Bank offers a wide range of banking and financial services primarily to micro, small and medium enterprises ("MSME"), agricultural and retail customers ("RAM"). As on March 31, 2022, the bank had a network of 509 branches, 12 administrative offices, 1,141 ATMs, 282 CRMs, and 101 E-lobbies. Out of these 509 branches, 76 branches are in metropolitan areas, 80 branches are in urban areas, 247 branches are in semi-urban areas, and 106 branches are in rural areas. The bank reported deposits of Rs 4,49,300 million and advances of Rs 3,34,900 million as of March 2022 and has an overall customer base of approximately 5.08 million with 4.05 million or 79.78% of the customers associated with Tamilnad for a period of more than five years. The bank has a strong presence in South India and further diversifying their branches in other states of India, with 90 branches located in the states of Maharashtra, Gujarat, Karnataka and Andhra Pradesh respectively.

Objects of the issue

The IPO proceeds will be used towards the following purposes:

- ⇒ To augment its Tier-I capital base to meet its future capital requirements
- ⇒ To meet the expenses in relation to the Offer.
- ⇒ To realize the listing benefits of equity shares on the stock exchange

Investment Rationale

Wide presence in Tamil Nadu with focus to increase presence in other strategic regions

Tamilnad Mercantile Bank has built a strong and trusted network of 4.32 million customers (85.03% of their overall customer base) and are located across 369 branches, 949 ATMs, 255 CRMs, 91 E-Lobbies, 3,939 PoS as of March 31, 2022 in the state of Tamil Nadu. Being one of the fastest growing states with continued focus on MSME and textile industry with GSVA at current prices growing at a CAGR of 11% over Fiscals 2017-2022 against the country wide growth of 9% , Tamil Nadu is under penetrated which presents an opportunity for further growth in GDP funded by bank loans. The bank is focused on diversifying their reach in the already existing network to enhance their customer base and increase their business operations. In FY22, the deposits and advances portfolios, in the state of Tamil Nadu, Maharashtra, Andhra Pradesh, Karnataka and Gujarat contributed to 75.06%, 5.78%, 3.67%, 3.47% and 2.91% respectively to Tamilnad's business.

Strong asset quality, underwriting practices and risk management policies and procedures

Tamilnad Mercantile Bank believes in selective lending to limit their exposure to certain industries and sectors and has a risk management committee to monitor the corporate customers on a monthly basis. As per the CRISIL report, the bank has reported a relatively lower GNPA of 1.69% as compared with their peers GNPA of 4.40% (median) in Fiscal 2022. In order to maintain and improve their asset quality the bank follows specific processes prior to loan approval and during the tenure of the loans depending on the ticket size of the loans. Advances with exposure of ₹ 250.00 million or more are monitored on a daily basis. Additionally, they have early warning signals ("EWS") software in place to identify weaknesses in advances which is escalated to relevant officers and branches of the bank. The policies are regularly assessed and updated to align with statutory changes as well industry standard for the long-term sustainable development of Tamilnad's business.

Valuation and Outlook

The Indian banking sector is significantly under-penetrated, which provides immense opportunities for banks and other financial institutions. Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in August 2014, is aimed at ensuring affordable access to financial services - banking/savings and deposit accounts, remittances, credit, insurance, and pension. During fiscals 2020-22, TMB's deposits increased at a healthy CAGR of 10.46% (compared with peer median:7.90%), falling in the top five amongst its peers; while its advances increased at a CAGR of 9.93% (compared with peer median: 8.00%). The company's current account and savings account deposits to total deposits are also competitive among peers at 30.50%. TMB's net profits increased at a CAGR of 41.99% during fiscal 2020-22, with the bank reporting the second highest net profit at Rs. 8,200 million during fiscal 2022 amongst its peers. On the upper end of the price band, the issue is valued at a Price to Book Value of 1.35x (as of FY22), which we believe is to be fairly priced. However, the change in the management and pending legal proceedings in relation to the shareholding remain a risk. On the basis of strong asset quality and consistent financial performance, we recommend a "SUBSCRIBE" rating for the long term.

Issue Details	
Offer Period	5 th Sept– 7 th Sept, 2022
Price Band	INR.500 to INR.525
Bid Lot	28
Listing	BSE&NSE
Issue Size (no. of shares in mn)	15.84

Issue Size (INR. in bn)	8.32
Face Value	10

Issue Structure	
QIB	75%
NIB	15%
Retail	10%

BRLM	Axis Capital Limited Motilal Oswal Investment Advisors Limited SBI Capital Markets Limited
Registrar	Link Intime India Private Limited

Particulars	Pre Issue %	Post Issue %
Promoter	0%	0%
Public	100%	100%
Total	100%	100%

(Assuming issue subscribed at higher band)

Income Statement (Rs in millions)

Particulars	FY22	FY21	FY20
Interest Earned	38,339	36,091	34,661
Other Income	8,226	6,443	5,264
Total Income	46,564	42,534	39,925
Interest Expended	20,186	20,715	21,466
Operating Expenses	11,110	9,797	8,509
Total Expenditure	31,297	30,512	29,975
Operating Profit (before Extra Ordinary Items and Provision & Contingencies)	15,268	12,022	9,950
Less: Provisions & Contingencies	7,049	5,989	5,873
Net Profit for the Year	8,219	6,033	4,077
Profit brought forward	800	507	572
Total Profit for the Year	9,019	6,540	4,649

Source: RHP, BP Equities Research

Cash Flow Statement (Rs in million)

Particulars	FY22	FY21	FY20
Cash Flow from Operating Activities	13,250	(6,704)	5,674
Cash Flow from Investing Activities	(1,068)	(371)	(202)
Cash Flow from Financing Activities	(713)	(3,240)	2,690
Net Increase/(Decrease) in Cash and Cash Equivalents	11,469	(10,315)	8,162
Cash and Cash Equivalents at the Beginning of the Period	27,051	37,366	29,204
Cash and Cash Equivalents at the End of the Period	38,520	27,051	37,366

Source: RHP, BP Equities Research

Tamilnad Mercantile Bank Ltd.

IPO Note

Balance Sheet (Rs in millions)

Particulars	FY22	FY21	FY20
Capital and Liabilities			
Capital	1,425	1,425	1,425
Reserves & Surplus	51,932	44,375	38,371
Deposits	449,331	409,704	368,250
Borrowings			3,240
Other Liabilities and Provisions	25,897	19,768	16,301
Total Capital and Liabilities	528,585	475,272	427,588
Assets			
Cash and balances with Reserve Bank of India	21,131	16,803	14,144
Balances with Banks and Money at Call and Short Notice	17,389	10,248	23,221
Investments	130,355	117,032	946,73
Advances	334,915	310,696	277,158
Fixed Assets	2,108	1,372	1,285
Other Assets	22,686	19,121	17,107
Total Assets	528,585	475,272	427,588
Contingent Liabilities	87,977	113,871	73,096
Bills for Collection	9,831	8,959	7,975

Source: RHP, BP Equities Research

Key Risks

- ⇒ The bank has a high concentration of business in Tamil Nadu and is dependent on the economic, political, or geographical conditions of Tamil Nadu and other states in which it operates.
- ⇒ The bank's former director has filed a writ petition before the High Court of Madras and has also received multiple complaints from other former directors and shareholders regarding disclosures in the Draft Red Herring Prospectus.
- ⇒ The company is heavily reliant on Retail, MSME and Agri-financing, any adverse development in these segments can affect their business operations and cash flows

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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