



IPO Report

03rd Sept' 22

Snapshot

Tamilnad Mercantile Bank Ltd is one of the oldest and leading old private sector banks in India with a history of almost 100 years. Bank offer a wide range of banking and financial services primarily to micro, small and medium enterprises (“MSME”), agricultural and retail customers (“RAM”). As of March 31, 2022, bank have 509 branches, of which 106 branches are in rural, 247 in semi-urban, 80 in urban and 76 in metropolitan centres.

VALUATION

Bank is bringing the issue at price band of Rs 500-525 per share at p/b multiple of 1.40x on FY22 PAT basis.

Although bank has strong legacy, loyal customer base and has focus on improving servicing framework. Bank with its strong presence in Tamil Nadu & focus to increase presence in other strategic regions is consistently growing deposit base with focus on low-cost retail CASA. Also, with its strong asset quality, underwriting practices and risk management policies and procedures and consistent financial performance, we recommend “Subscribe” on issue for long term.

Price Band (Rs./Share)	500-525
Opening date of the issue	02nd Sept 2022
Closing Date of the issue	05th Sept 2022
No of shares pre issue	142,511,454 Eq Shares
Issue Size	15,840,000 Equity Shares
Fresh Issue	15,840,000 Equity Shares
Face Value (Rs/ share)	10
Bid Lot	28

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (Approx 11880000 Eq Shares)
Non-Institutional	15% of the offer (Approx 2376000 Eq Shares)
Retail	10% of the offer (Approx 1584000 Eq Shares)
Lead managers	Axis capital Ltd, Motilal Oswal Investment Advisors Ltd, SBI Capital Markets Limited
Registrar to the issue	Link Intime India Pvt. Ltd.

WHAT WE LIKE

Strong legacy, loyal customer base and focus on improving servicing framework

With almost 100 years of history, bank have established itself as a well-recognized scheduled commercial bank having a strong network of branches, ATMs and CRMs across several states of South India including Tamil Nadu being its home state, along with Maharashtra, Gujarat, Karnataka, and Andhra Pradesh, which has enabled bank to maintain a strong customer base.

Consistently growing deposit base with focus on low-cost retail CASA

During the last three Fiscals, bank’s overall deposits base has increased from ₹ 368,250.27 million in Fiscal 2020 to ₹ 409,704.16 million in Fiscal 2021 to ₹ 449,331.14 million in Fiscal 2022, owing to an increase in both term deposits and CASA deposits. Bank’s CASA deposits as a share of total deposits has increased from ₹ 95,180.50 million or 25.85 % in Fiscal 2020 to ₹ 116,852.65 million in Fiscal 2021 or 28.52% to ₹ 137,051.64 million in Fiscal 2022 or 30.50% with a CAGR of 20.00 % from Fiscal 2020 to Fiscal 2022. Bank’s CASA portfolio is diversified and has low concentration with 2.91% of deposits from its top 20 deposit holders and 4.75% deposits from bank’s top 50 depositors as of March 31, 2022

Consistent financial performance

Bank’s total income increased at a CAGR of 7.99% from ₹39,925.29 million in 2020 to ₹ 42,534.02 million in Fiscal 2021 to ₹46,564.35 million in 2022. Bank’s NIM has consistently grown over the years with an increase from 3.64% to 4.10% from Fiscal 2020 to Fiscal 2022 at a CAGR of 6.13%. Its cost to income percentage has reduced from 46.10% in Fiscal 2020 to 42.12% in 2022. Bank had the second highest Net Profit for Fiscal 2022 amongst its Peers, and its Return on Assets was also higher at 1.66% compared to a median 0.80% for its Peers for Fiscal 2022. In terms of a Return on Equity, Bank had a ratio of 16.58% in Fiscal 2022, as compared to its Peers who reported a median of 8.30%. PAT of Bank increased at a CAGR of 41.99% from ₹ 4,076.94 million in Fiscal 2020 to ₹ 8,219.09 million in Fiscal 2022. ROE of Bank increased at a CAGR of 24.31% from 10.73% in Fiscal 2020 to 16.58% in Fiscal 2022. ROA of Bank increased at a CAGR of 29.49% from 0.99% in Fiscal 2020 to 1.66% in Fiscal 2022. Bank’s GNPA have reduced from 3.62% in Fiscal 2020 to 1.69% in Fiscal 2022. Bank has reported a relatively lower GNPA of 1.69% as compared with 4.40% for its Peers (median) as of Fiscal 2022. Its NNPA have reduced from 1.80% in Fiscal 2020 to 0.95% in Fiscal 2022.



COMPANY BACKGROUND

Bank offer a wide range of banking and financial services primarily to micro, small and medium enterprises (“MSME”), agricultural and retail customers (“RAM”). As of March 31, 2022, bank have 509 branches, of which 106 branches are in rural, 247 in semi-urban, 80 in urban and 76 in metropolitan centres. Bank’s overall customer base is approximately 5.08 million as of March 31, 2022 and 4.05 million or 79.78% of bank’s customers have been associated with bank for a period of more than five years and have contributed to ₹ 350,142.39 million or 77.93% to bank’s deposits and ₹ 219,022.26 million or 64.90% to bank’s advances portfolios as of March 2022.

Tamil Nadu Mercantile bank was incorporated as ‘Nadar Bank Limited’ in 1921 and its name was changed to ‘Tamilnad Mercantile Bank Limited’ in the year 1962. Since incorporation, having head quartered at Thoothukudi, Tamil Nadu, India, bank have 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”) as of March 31, 2022. Tamil Nadu, the fourth largest state of India, is one of the fastest growing states, with continued focus on MSME and textile industry. Tamil Nadu’s gross state value added (“GSVA”) at current prices grew at a compounded annual growth rate (“CAGR”) of 11% between Fiscal 2017 and 2022 against the country wide growth of 9% .

Metric	As of and for the years ended March 31,		
	2020	2021	2022
Cost of deposits	6.27%	5.49%	4.91%
Net advances	277157.60	310696.03	334915.42
Yield on advances	10.19%	9.65%	9.45%
Credit cost (Average Advances)	1.51%	1.37%	0.63%
Net interest income	13195.1	15375.3	18152.29
Net interest margin	3.64%	3.77%	4.10%
Operating Profit	9950.30	12022.3	15267.69
Net Profit	4076.90	6033.30	8219.09
Net Worth	39796.50	45799.80	53357.06
Return on assets	0.99%	1.35%	1.66%
Return on equity	10.73%	14.10%	16.58%
CASA to total deposits ratio	25.85%	28.52%	30.50%
Cost to income ratio	46.10%	44.90%	42.12%
Gross NPA	3.62%	3.44%	1.69%
Net NPA	1.80%	1.98%	0.95%
PCR Ratio	80.75%	79.53%	87.92%



INVESTMENT RATIONALE

<p><i>Strong presence in Tamil Nadu with focus to increase presence in other strategic regions</i></p>	<p>Since incorporation, bank have built a strong and trusted network of customers in the State of Tamil Nadu. As of March 31, 2020, 2021 and 2022 bank's deposits and advances in the state of Tamil Nadu contributed to 75.93%, 76.33% and 75.06%, respectively, of its Total Business. As of March 31, 2022, bank had 4.32 million customers, 85.03% of bank's overall customer base, contributing to its deposits and advances portfolios in the State of Tamil Nadu. The gross state domestic product ("GSDP") has been highest in the state of Maharashtra followed by the state of Tamil Nadu and Gujarat. GSDP of Tamil Nadu has grown at a CAGR of 11% over Fiscals 2017-22 higher than National gross domestic product ("GDP") which has grown at a CAGR of 9% between the same period. During the same period, Gujarat has reported highest growth of 11% and Maharashtra has displayed growth rate of 8%. Tamil Nadu is also 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. Its bank credit to GDP stands at 52% as compared to ~100% in case Maharashtra and 33% for Gujarat during Fiscal 2020.</p>
<p><i>Consistently growing deposit base with focus on low-cost retail CASA</i></p>	<p>Bank have adopted a customer-first approach, with an emphasis on customer relationships. Apart from the individual segment, bank have focused on account sourcing on value based CASA products, have started following segmental approach on CASA growth by introducing segment wise CASA products such as Trust, Association, Society, Colleges, Charities ("TASC") and CASA accounts of central and state government schemes under "TMB Savings for Government Segments" account. During the last three Fiscals, bank's overall deposits base has increased from ₹ 368,250.27 million in Fiscal 2020 to ₹ 409,704.16 million in Fiscal 2021 to ₹ 449,331.14 million in Fiscal 2022, owing to an increase in both term deposits and CASA deposits. Bank's CASA deposits as a share of total deposits has increased from ₹ 95,180.50 million or 25.85% in Fiscal 2020 to ₹ 116,852.65 million in Fiscal 2021 or 28.52% to ₹ 137,051.64 million in Fiscal 2022 or 30.50% with a CAGR of 20.00% from Fiscal 2020 to Fiscal 2022. Bank's CASA portfolio is diversified and has low concentration with 2.91% of deposits from its top 20 deposit holders and 4.75% deposits from its top 50 depositors as of March 31, 2022.</p>
<p><i>Strong asset quality, underwriting practices and risk management policies and procedures.</i></p>	<p>Company focus on selective lending and limit its exposure to certain industries and sectors as a part of bank's strategy to monitor concentration risk. Bank have a Risk Management Committee to monitor its corporate customers on a monthly basis. Bank's GNPA have reduced from 3.62% in Fiscal 2020 to 1.69% in Fiscal 2022. Bank has reported a relatively lower GNPA of 1.69% as compared with 4.40% for its Peers (median) as of Fiscal 2022. Bank's NNPA have reduced from 1.80% in Fiscal 2020 to 0.95% in Fiscal 2022. In Fiscal 2022, bank's GNPA as a percentage of advances in RAM portfolio is 1.45% and in corporate portfolio is 3.36% respectively. Bank have a low customer concentration in terms of average ticket size. The average ticket size has remained in the range of 0.31 million to 0.34 million during the last three Fiscals. Bank have maintained its PCR at 87.92% as of March 31, 2022. Bank made total provisioning of ₹ 2,496.30 million and total write-offs including technical/prudential write offs of ₹ 20,571.40 million together amounting for ₹ 23,067.70 million as on March 31, 2022. Additionally, during the year Bank has made provisions for contingency provision for COVID-19 and other uncertainties as of March 31, 2022, bank made total provisioning for ₹ 2500 million.</p>



OBJECTS OF OFFER

Bank proposes to utilize the Net Proceeds towards augmenting its Tier-I capital base to meet its future capital requirements.

RISKS

37.73% of bank's paid up equity share capital or 53.76 million Equity Shares are subject to outstanding legal proceedings which are pending at various forums and, in connection with which, proceedings against bank have been initiated by various regulatory authorities, including the RBI, the Directorate of Enforcement, some of whom have imposed and sought to impose penalties on bank in the past. Bank cannot assure you that these matters will be resolved in a timely manner or at all and any adverse developments in such proceedings could result in the imposition of injunctions or penalties or require bank to incur significant costs to contest any of which could have a material impact on bank's reputation, business, financial condition and results of operation.

Source:RHP

INDUSTRY OVERVIEW

Banking in Tamil Nadu

Increased savings has a direct impact on lending capabilities and overall GDP growth Increased deposits with banks act a low-cost source of funds for the bank's lending activities. This allows the bank to charge a comparatively low rate of Interest, and hence, passing on cost benefit to the borrower. This borrowing allows businesses to borrow for growth and expansion, thereby boosting economic growth and GDP. There appears to be a positive correlation between GDP, advances and deposits for the state. Tamil Nadu's and Gujarat's deposits increased at 10% and 9% respectively in fiscal 2022, whereas Maharashtra's growth was 600 bps higher at 15%. In terms of advances growth in fiscal 2022, Gujarat displayed highest growth, i.e.,12%, followed by Tamil Nadu and Maharashtra which grew at 10% each.

Lower bank credit-to-GDP ratio indicates potential for further lending in the state Tamil Nadu is under-penetrated, which presents an opportunity for further growth in GDP funded by bank loans. Its bank credit to GDP stood at 52% compared with ~100% in case Maharashtra and 33% for Gujarat during fiscal 2022.

Public sector banks dominate the state's lending portfolio Tamil Nadu's bank credit had been increasing at a faster pace compared with All India Credit till fiscal 2021. In fiscal 2022, the state's bank credit increased 10% as against All India Credit, which rose 11%. Public sector banks accounted for 55% of total funding; down from 68% in fiscal 2016. On the other hand, private banks have been gaining share.



Consolidated Financials

(Rs in Mn)

Financials	FY20	FY21	FY22
Net Income (A)	18459.37	21818.77	26378.04
Total Operating Expenditure (B)	8509.11	9796.54	11110.35
Pre Provision Profit	9950.26	12022.23	15267.69
Provisions	5873.32	5988.94	7048.60
PBT	4076.94	6033.29	8219.09
Tax	0.00	0.00	0.00
PAT	4076.94	6033.29	8219.09
EPS	28.6	42.3	57.7
Eq Cap	1425.11	1425.11	1425.11
Net Worth	39,796.46	45,799.82	53,357.06

(Source: RHP)

Peer Comparison

Bank Name	GNPA	NNPA	ROA	ROE	CAR Ratio
<i>Tamilnad Mercantile Bank</i>	1.69	0.95	1.66	16.58	20.44
City Union Bank	4.70	2.95	1.32	12.23	19.80
Catholic Syrian Bank	1.81	0.68	1.88	18.98	24.40
DCB	4.32	1.97	0.68	7.37	15.80
Federal bank	2.80	0.96	0.89	10.82	14.40
Karur Vyasya bank	5.96	2.28	0.87	9.25	17.50
Karnataka Bank	3.90	2.42	0.57	7.40	12.70
RBL Bank	4.40	1.34	-0.07	-0.59	16.20
South Indian bank	5.90	2.97	0.05	0.77	13.20

(Source: RHP)



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