



Tamilnad Mercantile Bank Limited

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Offer Details

IPO Size	Rs. 831.60 Cr.
Shares Face Value	Rs.10 per share
Fresh Issue	15840000 shares of Rs. 10 each
Shares price band	Rs.500 to Rs.525 per share
Lot	28 shares
Opening Date	September 5, 2022
ClosingDate	September 7, 2022

Business Overview

- **One of the first private sector banks in India**, which cater to retail, agricultural, and MSME clients largely in semi-urban and rural areas where they have branches.
- In 1921, they were **established as the "Nadar Bank Limited,"** and in the year 1962 they **became "Tamilnad Mercantile Bank Limited,"**.
- In 1962, they got a licence from RBI to conduct banking operations.
- There are **509 branches** of which **106 branches are in rural, 247 in semi-urban, 80 in urban and 76 in metropolitan centres, 1,141 ATMs, 282 CRMs, 101 E-lobbies of Bank and total customer base of 5.08 million.**
- **Strong presence in Tamil Nadu**, with 369 branches and 949 automated teller machines (“ATMs”) and 255 cash recycler machines (“CRMs”).
- TMB has a significant market presence in the state of **Tamil Nadu with 369 branches, and is also present in 15 other states and 4 union territories of India.**
- The products and services offered by bank to customers can be divided into two categories – **Advances and Deposit Products.**
- **Advances portfolio** consists of lending to Retail customers, agricultural customers, MSMEs (“RAM”) and corporate customers.
- **Deposits portfolio** consists of term deposits, recurring deposits, savings bank and current bank accounts amongst others.

- **Average ticket size of advances are as follows:**

(In ₹ million)

Loan Category	Fiscal 2020	Fiscal 2022	CAGR
Up to ₹ 1 lac	38436.1	32089.5	(8.63%)
Above ₹ 1 lac and up to ₹ 5 lacs	27925.6	58272.6	44.45%
Above ₹ 5 lacs and up to ₹ 10 lacs	18492.5	24727.4	15.64%
Above ₹ 10 lacs and up to ₹ 25 lacs	42540.1	56155.0	14.89%
Above ₹ 25 lacs	154967.7	166239.3	3.57%

Source: RHP Tamilnad Mercantile Bank Limited

- Bank has **healthy renewal rates** across term deposit 115 categories. The deposit growth rate has been **one of the top five amongst their Peers** in the industry with a growth rate of 10.46% for Fiscals 2020-22.
- They bank is **professionally managed with Board of Directors and senior management** consist of seasoned professionals with experience in banking, accounting and auditing.

What is working for company

- **Loyal customer base:** Bank has maintained strong customer base. customers are consistently increasing as of March 31, 2020, 2021 and 2022, they had 4.66 million, 4.91 million and 5.08 million customers respectively. Also large portions of our existing customers have been associated with us for more than five years specifically in the states of Tamil Nadu, Andhra Pradesh, Maharashtra, Karnataka and Gujarat.
- **Focus on enhancing customer services:** Bank introduced various alternate banking channels such as ATMs, CRMs, internet banking, mobile banking, E-Lobbies, point of sales (“PoS”), banking and debit and credit cards. Bank also introduced internet banking to our customers in 2008 through ‘TMB-Econnect’ and utility payment facility which enabled our customers to pay bills and utilizes various other services.
- **Strong Financial Performance compare to peers:**

(in ₹ million)

Parameters (FY2022)	TMB	City Union Bank	Catholic Syrian Bank	DCB	Federal Bank	Karur Vysya Bank	Karnataka Bank	RBL Bank	South India Bank
GNPA (In ₹ million)	5,709.23	19,331.80	2,895.10	12,899.30	41,367.40	34,310.40	22,508.20	27,283.90	36,480.90
GNPA (%)	1.69%	4.70%	1.81%	4.32%	2.80%	5.96%	3.90%	4.40%	5.90%
NNPA (In ₹ million)	3,175.80	11,911.00	1,070.00	5,732.30	13,926.20	12,607.90	13,769.70	8,065.60	17,777.70
NNPA (%)	0.95%	2.95%	0.68%	1.97%	0.96%	2.28%	2.42%	1.34%	2.97%

Note: Peers in the CRISIL Report includes all listed old private sector banks with total business size of at least ₹ 2,00,000 million.

- **Healthy renewal rates:** Bank also have healthy renewal rates across term deposit 115 categories. Our deposit growth rate has been one of the top five amongst our Peers in the industry with a growth rate of 10.46% for Fiscals 2020-22.
- **Advances with focus on MSME, agricultural and retail segment:** Bank provides structured loan products to meet the financial requirements of MSME customers, which aids in growing the MSME customer base across all places where they are currently present. These products include “TMB-Traders & Services”, “TMB – MSME Credit”, “TMB Vehicle Finance (for commercial purposes)”, “TMB-Rice Mill”, “TMB-Dhall Mill”, “TMB-Pharma and Health Care”, “TMB-Micro Entrepreneurs under Pradhan Mantri MUDRA Yojna (“PMMY”)", “TMB Vyapari” and TMB Rental-100” (for business purposes).
- **Steadily expanding deposit base with a concentration on affordable retail CASA:** 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.
- **Strong asset quality, underwriting practices and risk management policies and procedures:** strong customer understanding, focus on secured granular loan products and strong under-writing and risk management framework has helped them to maintain and further improve asset quality and driving the growth with consistent profitability. They focus on selective lending and limit their exposure to certain industries and sectors as a part of their strategy to monitor concentration risk.

What is not working for company?

- 37.73% of company's paid up equity share capital 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 to the bank in the past.
- **Bank is significantly dependent on Retail, MSME and Agri-financing,** customers and any adverse developments in these segments could adversely affect the business, results of operations, financial condition and cash flows.
- **Some of corporate records are not traceable** and bank have limited knowledge and records of documents relating to corporate actions undertaken by Bank. These corporate records may not be available in future and bank may be subject to penalty imposed by the competent regulatory authority in this respect.
- **Bank contingent liabilities exceeds bank net worth,** which, if they materialize, may adversely affect their results of operations, financial condition and cash flows.

Financial Statements

Profit & Loss Statement

(Fig. in cr.)

	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022
Revenue	3,250	3,224	3,466	3,609	3,834
Interest	2,041	1,994	2,147	2,072	2,019
Expenses +	1,366	1,350	1,231	1,355	1,480
Financing Profit	-157	-120	89	183	335
Financing Margin %	-5%	-4%	3%	5%	9%
Other Income +	506	414	526	644	823
Depreciation	40	36	30	29	33
Profit before tax	310	259	585	798	1,125
Tax %	28%	0%	30%	24%	27%
Net Profit	222	259	408	603	822
EPS in Rs	15.57	18.14	28.61	42.34	57.67

Source: Screener.in

Balance sheet

(Fig. in cr.)

Share Capital +	143	143	143	143	143
Reserves	3,262	3,476	3,837	4,437	5,193
Borrowings +	32,941	35,136	37,149	40,970	44,933
Other Liabilities +	1,522	1,719	1,604	1,948	2,559
Total Liabilities	37,868	40,473	42,733	47,499	52,828
Fixed Assets +	140	138	128	137	211
CWIP	0	0	0	0	0
Investments	10,364	9,107	9,467	11,703	13,035
Other Assets +	27,364	31,228	33,137	35,658	39,581
Total Assets	37,868	40,473	42,733	47,499	52,828

Source: Screener.in

Cash Flow Statement

(Fig. in cr.)

	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022
Cash from Operating Activity +	-389	0	0	-670	1,325
Cash from Investing Activity +	-26	0	0	-37	-107
Cash from Financing Activity +	472	0	0	-324	-71
Net Cash Flow	58	0	0	-1,031	1,147

Source: Screener.in

Our Recommendation

We recommend you to **SUBSCRIBE with Caution** to this IPO on the following parameters:

- Steadily expanding **deposit base.**
- Bank have loyal **customer base.**
- Bank is having healthy **renewable rates.**
- No promoter the **bank is managed by board.**
- Company having **legal proceeding** against 37.73% of company's paid up equity share capital in various forums and also Some of **corporate records are not traceable** and this is the only concern.

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