

Issue Highlights

Issue Open	September 5, 2022
Issue Close	September 7, 2022
Issue Price	Rs. 500 - Rs. 525 Per Share
Total Issue Size	Rs. 831.6 Cr
Of which	
Fresh Issue	Rs. 831.6 cr
Face Value	Rs. 10 Per share
Market Lot	28 Equity Shares
Issue Type	Book Built Issue

Offer Structure

QIB Category	75%
Retail category	10%
Non-Institutional	15%

Lead Book Running Managers

- ⇒ Axis Capital Ltd.
- ⇒ Motilal Oswal Investment Advisors Ltd.
- ⇒ SBI Capital Markets Ltd.

Registrar To The Offer

- ⇒ Link Intime India Pvt Limited

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Key Highlights

- ❑ **Company Background:** Tamilnad Mercantile Bank Ltd. (Tamilnad) is one of the oldest and leading old private sector banks in India with a history of almost 100 years. It offers a wide range of banking and financial services primarily to micro, small and medium enterprises, agricultural and retail customers. It has 509 branches, of which 106 branches are in rural, 247 in semi-urban, 80 in urban and 76 in metropolitan centres. Its overall customer base is approximately ~5.08 million as of FY22 and 4.05 million or 79.8% of its customers have been associated with the bank for a period of more than five years.
- ❑ **Strong presence in Tamil Nadu:** Tamilnad has built a strong and trusted network of customers in the state of Tamil Nadu. As of FY22 deposits and advances in the state of Tamil Nadu contributed to 75.1% of its total business. Moreover, 85% of its overall customer base contributes to its deposits and advances portfolios in the state of Tamil Nadu. Apart from its home state, the bank is also focusing on diversifying its reach in already existing network including in the states of Gujarat, Maharashtra, Karnataka and Andhra Pradesh.
- ❑ **Advances with focus on MSME, agricultural and retail segments:** It has traditionally focused on small ticket size loan products to MSME customers, agricultural and retail customers. Its advances portfolio consists of a wide basket of retail finance and small ticket size MSME finance products. Its focus is on understanding the needs and expectation of customers, particularly in the RAM space and adopting strategies to target these customer segments for growth.
- ❑ **Consistently growing deposit base with focus on low-cost retail CASA and strong asset quality:** The bank has adopted a customer-first approach with an emphasis on customer relationships. Its deposits have grown at 10.5% CAGR over FY20-22. Its CASA deposits as a share of total deposits has increased from 25.9% in FY20 to 30.5% in FY22. On asset quality front, its Net NPA has reduced from 1.8% in FY20 to 0.95% in FY22.
- ❑ **Promising industry growth prospects:** The Indian banking sector is significantly under-penetrated which provides immense opportunities for banks and other financial institutions. Within this private bank are better placed given the higher degree of operational efficiency and well capitalized balance sheet.
- ❑ **Tamilnad well placed to capitalize:** Tamilnad is well placed to capitalize the growing industry trends given the strong growth potential in geographies where the company is present. Moreover, the company would focus on improving technology which would help them achieve higher operational efficiency and improve drive customer experience.
- ❑ **Healthy financial track record:** The financial track record has good for the company with total income and PAT growth of 7.99% and 41.99% CAGR over FY20-22. Its net interest margin has improved from 3.64% in FY20 to 4.1% in FY22. Its deposits and advances have grown at a healthy pace of 10.5% and 9.9% CAGR over FY20-22. On the valuation front, Tamilnad is valued at 1.4x pre-issue FY22 Price to Book Value.
- ❑ **Key Risks:** i) High dependence on Tamil Nadu state, ii) Rising interest rates and deteriorating asset quality.

Peer Analysis

Parameters (FY22)	Tamilnad Mercantile Bank	City Union Bank	Catholic Syrian Bank	DCB	Federal Bank	Karur Vysya Bank	Karnataka Bank	RBL Bank	South Indian Bank
Advances (Rs. cr)	33,492	40,359	15,815	29,096	144,928	55,335	56,783	60,022	59,993
Advances CAGR (FY20-22)	9.9%	9.1%	18.0%	7.1%	8.9%	9.6%	-0.2%	1.7%	-3.5%
Deposits (CAGR FY20-22)	10.5%	8.1%	13.1%	6.9%	9.2%	7.8%	5.8%	16.9%	3.6%
Net Profit (Rs. cr)	822	760	458	288	1,890	673	509	-75	45
CASA / Total Deposit (%)	30.5%	32.6%	33.7%	26.8%	36.9%	34.8%	33.0%	35.3%	33.2%
Yield on Advances (%)	9.5%	9.4%	11.2%	10.7%	7.9%	8.5%	8.8%	12.2%	8.7%
Cost of Deposits (%)	4.9%	4.68%	4.31%	6.05%	4.28%	4.30%	4.66%	4.81%	4.75%
NIM (%)	4.1%	3.98%	5.27%	3.56%	3.16%	3.69%	3.18%	4.40%	2.62%
RoE (%)	16.6%	12.23%	18.98%	7.37%	10.82%	9.25%	7.40%	-0.59%	0.77%
Gross NPA (Rs. cr)	571	1,933	290	1,290	4,137	3,431	2,251	2,728	3,648
Gross NPA (%)	1.7%	4.7%	1.8%	4.3%	2.8%	6.0%	3.9%	4.4%	5.9%
Net NPA (%)	1.0%	3.0%	0.7%	2.0%	1.0%	2.3%	2.4%	1.3%	3.0%
Book Value	374.4	89.1	152.8	130.2	91.6	95.0	228.0	209.0	28.0
Market Cap (Rs. cr)	8,314	13,390	3,664	2,930	25,002	5,682	2327	7,323	1,716
P/BV (x)	1.4	2.0	1.4	0.7	1.3	0.7	0.3	0.6	0.3

Source RHP : RBL Research

Financial Summary

Particulars (Cr)	FY20	FY21	FY22
Equity Share Capital	142.5	142.5	142.5
Reserves	3,837	4,437	5,193
Net Worth	3,980	4,580	5,336
Advances	27,716	31,070	33,492
Deposits	36,825	40,970	44,933
Interest Earned	3,466	3,609	3,834
YoY (%)	-	4.1%	6.2%
Net Profit	408	603	822
EPS	28.6	42.3	57.7
RoNW (%)	10.2%	13.2%	15.4%
NAV (Rs.)	279.3	321.4	374.4

Source RHP : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No

	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
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	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

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Name(s) with Signature(s) of RA(s).

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SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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