

## Rating

**AVOID**

## Issue Offer

Issue Opens on	Sep 05, 2022
Issue Close on	Sep 07, 2022
Total IPO size (cr)	831.60
Fresh issue (cr)	831.60
Offer For Sale (cr)	Nil
Price Band (INR)	500-525
Market Lot	28
Face Value (INR)	10
Retail Allocation	10%
Listing On	NSE, BSE

## Objects of the issue

- To augment tier-I capital base to meet future capital requirements..
- For benefit of listing.

## Issue Break-up (%)

QIB Portion	75
NIB Portion	10
Retail Portion	15

## Shareholding (No. of Shares)

Pre Issue	142,511,454
Post Issue	158,351,454

## Indicative Timetable

Finalisation of Basis of Allotment	12-09-2022
Refunds/Unblocking ASBA Fund	13-09-2022
Credit of equity shares to DP A/c	14-09-2022
Trading commences	15-09-2022

Incorporated hundred years back in 1921, Tamilnad Mercantile Bank is one of the oldest private sector banks in India. It offer a wide range of banking and financial services primarily to micro, small and medium enterprises, agricultural and retail customers. As of March 31, 2022, the bank has a strong branch network of 509 branches and a total customer base of 5.08 million. 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. It has a strong presence south India specially 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.

- 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: 8.00%) as per the CRISIL Report.
- Now its focus is on diversifying growth in other high growth regions of India which will help increase the network and client base.
- Other than Tamil Nadu, It is present in 15 other states and 4 union territories of India. Apart from Tamil Nadu, It 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.
- Its advance portfolio primarily consists of lending to (a) Retail customers; (b) agricultural customers and (c) MSMEs (“RAM”).

**Outlook & Valuation:** Bank has posted steady growth in its income and profits for last few years where revenue grown from Rs. 3992.53 Cr in FY20 to Rs. 4656.44 Cr. in FY22. during the same period, profit has grown from Rs 464.89 cr to Rs 901.9 cr. Similar growth is visible in net worth and reserve and surplus category as well. The precarious legal challenges and the lack of complete clarity on the management’s long-term performance make us averse to this issue. It is important to note that the management quality is paramount for any banking or finance company as it is synonymous with betting on the jockey, not the horse; thus, we suggest investors go for the existing listed banks where the management’s track record and performance during multiple credit cycles are visible. In short, large-sized banks and a few mid-sized banks are the best to ride on the upcoming credit and economic growth cycle and we have assigned “**AVOID**” rating to this issue.

## KEY MANAGERIAL PERSONNEL

- **K V Rama Moorthy\*** is the MD & CEO of the Bank. He has over 40 years of banking experience, including in Bank of Baroda and as an Executive Director in United Bank of India. Prior to joining the Bank, he was Executive Director in United Bank of India till 2017.  
**Krishnan Sankarasubramaniam\*** The Board, pursuant to its resolution has appointed Krishnan Sankarasubramaniam as the Managing Director & CEO with effect from September 4, 2022. Prior to joining the Bank, he was associated with Indian Bank, Syndicate Bank (which was merged into Canara Bank) and Punjab and Sind Bank.  
\*The term of K V Rama Moorthy is due to end on September 3, 2022. Krishnan Sankarasubramaniam has been approved by the RBI, pursuant to its letter of approval dated August 18, 2022, for appointment as the Managing Director & CEO with effect from September 4, 2022 for a term of 3 years.
- Nirranjan Sankar A, S. R. Ashok, Asok Kumar P.C.G. and Nirranjan Kani D.N. are Non-Executive Directors of the Bank.
- Balakrishnan Prabakaran, Chiranjeevi Raj C., Ezhil Jothi S., Nagarajan K., Vijayadurai B. and B.S. Keshava Murthy, are Independent Directors of the Bank.
- Prakash Chandra Panda is the company secretary of the Bank. He joined the Bank on April 17, 2017. He has 12 years of experience in the Secretarial, Legal and Listed companies.
- P A Krishnan is the Chief Financial Officer of the Bank. He joined the Bank on August 3, 2021. He has 35 years of experience in the banking industry. He was previously the General Manager and CFO of Indian Bank.

## COMPETITIVE STRENGTHS

- Strong legacy, loyal customer base and focus on improving servicing framework.
- Strong presence in Tamil Nadu with focus to increase presence in other strategic regions.
- Advances with focus on MSME, agricultural and retail segments.
- Consistently growing deposit base with focus on low-cost retail CASA.
- Professionally managed Bank with experienced senior management team and board of directors.
- Strong asset quality, underwriting practices and risk management policies and procedures.

## KEY STRATEGIES

- Continue to strengthen the product portfolios across deposits and advances.
- Transformation through technology to improve efficiency and customer experience
- Continue to improve asset quality.

## KEY CONCERNS

- 37.3% of paid up equity share capital have outstanding legal proceedings which are pending with various forums and proceedings against the bank have been initiated by various regulatory authorities including RBI
- The Bank has received and, in the future, receive multiple anonymous whistle blower complaints which may adversely affect the reputation of the bank and can affect business.
- Negative cash flow in past.
- Regional concentration in southern India mainly in Tamilnadu.
- Inability to comply with regulatory laws, regulations and norms.

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31<sup>ST</sup> MARCH 2022)

Name of the Company	EPS (Basic)	NAV	P/E	Total Income (Mn)	RoNW (%)
Bank	57.67	374.41	-	46,564.35	15.40
<b>Peer Group</b>					
City Union Bank Limited	10.29	89.05	12.54	48,638.62	11.54%
CSB Bank Limited	26.43	152.78	8.01	22,851.10	17.29%
DCB Bank Limited	9.26	130.15	7.49	39,648.04	7.10%
Federal Bank Limited	9.52	91.58	10.23	1,65,024.64	10.21%
Karur Vysya Bank Limited	8.42	94.95	5.50	63,567.27	8.86%

FINANCIALS (RESTATED CONSOLIDATED)

Particulars (Rs. In Millions)	FY 2022	FY 2021	FY 2020
Equity Share Capital	1,425.11	1,425.11	1,425.11
Other Equity	51,932	44,374.7	38,371.4
<b>Net Worth</b>	<b>53,357.1</b>	<b>45,799.8</b>	<b>39,796.5</b>
Total Borrowings	-	-	3,240.00
<b>Interest earned</b>	<b>38,338.60</b>	<b>36,090.53</b>	<b>34,661.12</b>
EBITDA	15,667.4	12,516.2	10,301
<b>Net Profit for the year</b>	<b>8,219.09</b>	<b>6,033.29</b>	<b>4,076.94</b>

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