

Issue Details		
Issue Opens	5-09-22	
Issue Closes	7-09-22	
Issue Size (in Rs. Crs)	792.00-832.00	
Issue Size (Shares)	1,58,40,000	
Authorised Shares	28,00,00,000	
Issued, Subscribed and Paid Up Sh. Pre offer	14,25,11,454	
Offer for Sale	1,58,40,000	
Face Value	Rs. 10.00	
Lot Size (Sh)	28.00	
Price Band	Rs.500- Rs.525	
Issue Type	Book Building	
Book Value (in Rs.)( FY22)	374.41	
BRLMs	Motilal Oswal Investment Advisors, SBI Capital Markets, Axis Capital	
Registrar	Link Intime India Pvt. Ltd.	
Listing Venue	BSE/NSE	
Finalization of Allotment	On or about 12-Sep -22	
Initiation of refund	On or about 13-Sep -22	
Credit to Demat Account	On or about 14-Sep -22	
Listing	On or about 15-Sep-22	
Issue Structure		
Categories	Allocation	
QIBs	75.00%	
Non-Institutional	15.00%	
Retail Portion	10.00%	
Total	100.00%	
Shareholding Pattern		
Categories	Pre issue	Post Issue
Promoter & Promoter Group	0.00%	0.00%
Public	100.00%	100.00%
Total	100.00%	100.00%
Recommendation		
<b>SUBSCRIBE</b>		

### Company Background

Tamilnad Mercantile Bank Ltd. (TMBL), the erstwhile Nadar Bank Ltd, is a century year old private sector bank from South India. The bank was incorporated in May 11, 1921 and headquartered in Thoothukudi, Tamil Nadu. The bank is professionally managed bank and does not have an identifiable promoter. It is the first private sector bank in India to introduce computerization for branch-level operations. As of now, the bank has 509 branches spread across India and almost 90% of them are located in rural and semi-urban areas. In addition to Tamil Nadu, the bank also operates in Maharashtra, Gujarat, Karnataka and Andhra Pradesh through 90 branches, 125 ATMs and 18 CRMs. TMBL has a strong loyal clientele base of 5.08 million as of March 31,2022 of which 85% comes from Tamil Nadu.

### Objects of the Issue

- The Bank proposes to utilize the net Proceeds from the fresh issue towards augmenting Bank's Tier - 1 capital base to meet its future capital requirements.
- To receive benefits of listing on the stock exchanges.

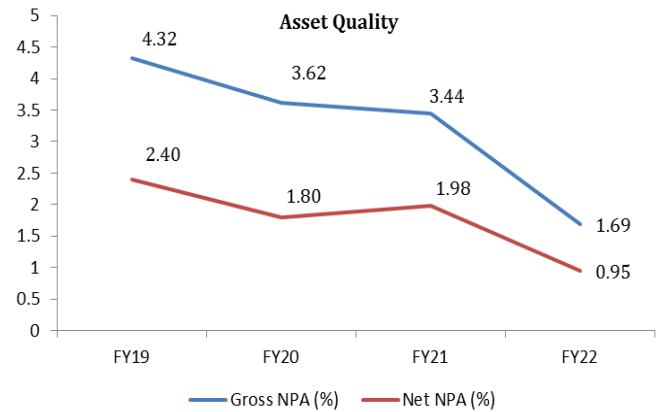
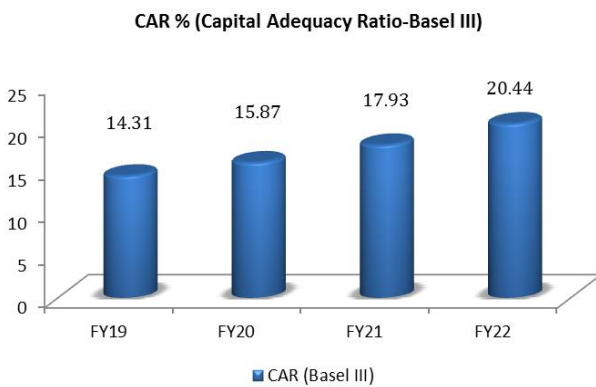
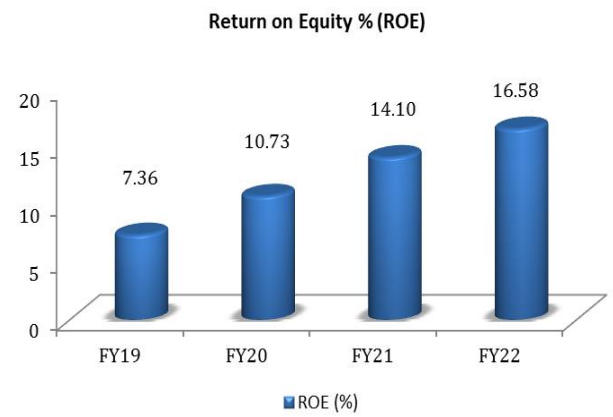
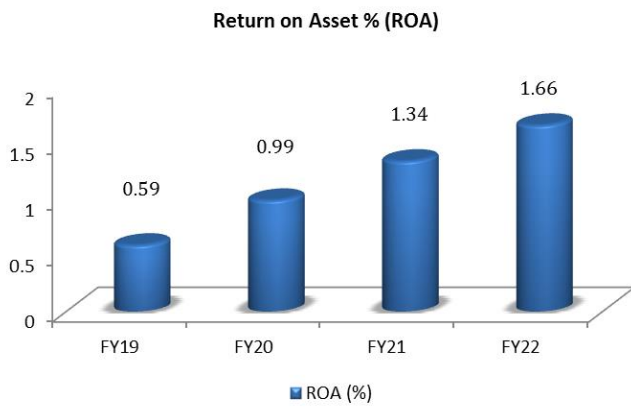
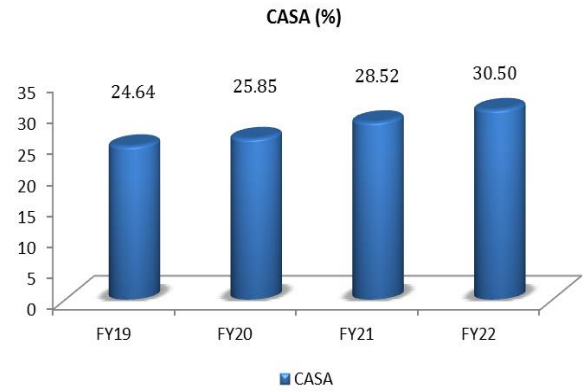
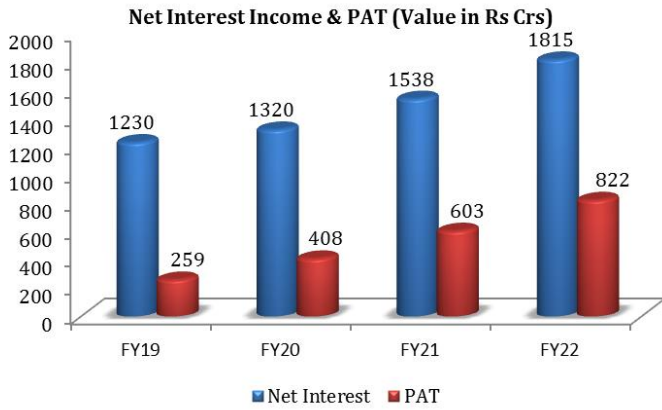
### Key Points

- The Bank has recorded substantial growth in its operations despite covid-19 induced lockdown. Its loan book and total deposits increased at a CAGR of 9.93% and 10.46% YoY, to Rs. 33491.54 crores and Rs. 44933.11 crores, respectively, during FY20-22. As a result, its overall business increased at a CAGR of 10.23% to Rs. 78424.65 crores.
- The Bank's business has experienced rapid growth, which has aided in improving its earnings. Its Net Interest Income (NII) increased at a CAGR of ~17% from FY20 to FY22.
- TMBL's loan portfolio primarily consists of lending to RAM (Retail, Agriculture and MSMEs). As of March 31, 2022, the Bank's loan book consisted of Agri (29.70%), Retail (20.39), SME (37.38%), and corporate clients (12.53%) giving it a varied lending portfolio.
- The Bank has adequate capital to sustain its trajectory of expansion. As of March 31, 2022, the bank's Basel III-required capital adequacy ratio (CAR) was at a robust 20.46%, which is 896 basis points more than the required level set by the regulator.
- The bank has used global best practices to manage its asset quality, highest standards of service and operational excellence. As of fiscal 2022, its Gross NPA and Net NPA were, 1.69% and 0.95% respectively. At 87.92% the bank also had the second highest PCR among its peers.
- Overall profitability has remained stable over the past few fiscal years, with NIM increasing from 3.64% to 4.10% from FY20 to FY22 because of consistent margins and pre-provisioning operating profitability which has been generally ranged between 2.42-3.09% of average assets over the last three years. The Bank has one of the best ROA at 1.66% & ROE at 16.58% when compared to its peers in South India. The stock is priced at an FY22 P/BV of 1.4x at the upper price band of Rs. 525 and P/E multiple of 9.1x, appears to be a reasonable when compared to its peers. We advise Subscribing to the issue with an investment horizon of 12-18 months.

Particulars (₹ Crs.)	FY22	FY21	FY20	FY19
Interest Earned	3833.86	3609.05	3466.11	3224.46
Other Income	822.57	644.35	526.42	414.34
<b>Total Income</b>	<b>4656.43</b>	<b>4253.40</b>	<b>3992.53</b>	<b>3638.80</b>
Interest Expended	2018.63	2071.52	2146.59	1994.30
Operating Expenses	1111.04	979.65	850.91	760.23
Provision & Contingencies	402.16	403.86	587.33	625.69
<b>PAT</b>	<b>821.91</b>	<b>603.33</b>	<b>407.69</b>	<b>258.58</b>
<b>EPS (in Rs.)</b>	<b>57.67</b>	<b>42.34</b>	<b>28.61</b>	<b>18.14</b>
<b>Book Value (in Rs.)</b>	<b>374.41</b>	<b>321.38</b>	<b>279.25</b>	<b>253.89</b>
<b>Equity</b>	<b>142.51</b>	<b>142.51</b>	<b>142.51</b>	<b>142.51</b>

Source: Company's RHP, Ace Equity, AUM Research

**Operating and Asset Quality data on a platter**



Source: Company's RHP, Ace Equity, AUM Research

### **Steady growth in deposits & advances and healthy business ratios.**

- TMB's deposit base grew from Rs 32,190 Cr in FY17 to Rs 44,933 Cr at the end of FY22, thus registering a CAGR growth of 6.90%. About twenty largest depositors hold about Rs 4,212 Cr comprising 9.38% of total deposit base of the bank at the end of FY22. In FY21, this figure stood at 7.31%.
- Advances grew from Rs 21,972 Cr to Rs 33,491 Cr during the same period thus showing a CAGR growth of 8.80%. The bank's advances to twenty largest borrowers stood at Rs 1,805 Cr, comprising of 5.35% of its total advances at the end of FY22 and was similar to FY21.
- Operating Profit grew by 27% YoY to Rs 1,526 Cr.
- Book Value Per Share improved from Rs 321 in FY21 to Rs 374 at the end of FY22.
- The banks borrowing stood nil for two consecutive fiscal years.
- Cost of Deposits at the end of FY22 stood at 4.91% as against 5.49% at the end of FY21.
- Net Interest Margin improved by 33 basis points YoY to 4.10%.
- Operating Profit as a percentage to working funds stood at 3.09% as against 2.68% at the end of FY21.
- TMB's PAT at Rs 821 Cr in FY22 and ranked second only to Federal Bank which reported a consolidated PAT of Rs 1970 Cr. Moreover; it has shown a CAGR growth of 20.96% from Rs 317 Cr in FY16 to Rs 821 Cr in FY22.
- It's ROE at 16.58% and ROA at 1.66% is best amongst its peers in South India, ranking second to CSB Bank at 18.98% and 1.88% respectively.
- Tier-I CAR at 20.44% is next to CSB Bank at 24.40%
- GNPA at 1.69% and NNPA 0.95% is the lowest amongst its South Indian peers.
- Provision Coverage Ratio stood at 87.92% at the end of FY22 as against 79.53% in FY21, indicating a cushion in meeting future slippages.

### **Large and a loyal customer base**

- TMB's strong loyal customer base stood at around 50 lakh at the end of FY22, of which 80% have been associated with the bank for more than 5 years. The old customers held about 78% of the bank's total deposits and 65% of its advances portfolio.

### **Strong and well entrenched branch network**

- With a history of 100 years, TMB has established itself as a well-recognized scheduled commercial bank having a strong network of branches, ATMs and CRMs (Customer Relationship Management) across several states of South India spanning across Tamil Nadu, Maharashtra, Gujarat, Karnataka and Andhra Pradesh.
- As on March 31, 2022, TMB has a network of 509 branches, 1,141 ATMs, 282 CRMs and 101 E-Lobbies.
- Out of these 509 branches, 106 branches are in rural, 247 in semi-urban, 80 in urban and 76 in metropolitan centres.
- TMB is presently focussing on diversifying its presence in other high growth regions of India which would facilitate in increasing its network and client base.
- Apart from Tamil Nadu, it has got its presence in 15 other states and 4 union territories of India. Maharashtra, Gujarat, Karnataka, and Andhra Pradesh account for about 90 branches, 123 ATMs' and 18 CRMs.

### **Robust Risk Management System in place**

- TMB lays down prime focus on maintaining and improving its asset quality by following specific processes prior to loan approval and during the tenure of the loans depending on the ticket size of the loans.
- The term loans are reviewed annually and higher value loans are reviewed periodically depending on the size of the loan products thus enabling the bank to escalate any defaults in a timely manner.
- A dedicated credit audit monitoring department monitors the advances and helps avoid any downgrading in asset classification.
- Installed an Early Warning Sign (EWS) software to weaknesses in advances which in turn is escalated to the appropriate level.
- Advances of more than Rs 25 Cr are monitored on a daily basis.
- A through internal assessment is done on a regular basis for maintaining of capital adequacy, liquidity ratios and leverage ratios in accordance to Basel III requirements.
- All the branch managers are trained to deal effectively with their customers through schemes that helps the bank understand its customers better in times of crisis.

### **Professionally managed organization**

- TMB has 12 Directors on its Board, comprising of one Executive Director, two RBI Nominee Directors, 9 Non-Executive Directors, including five Independent Directors one of whom is a woman Director.
- The Board of Directors and other senior management staff have got a rich knowledge and experience in the banking industry.
- MD & CEO Mr K.V.Rama Moorthy has more than 40 years of experience in the banking industry.
- The experience of the Board and other senior management staff has enabled the bank to develop a strong understanding of industry-specific aspects of its business and operations.

### Dividend Policy

Particulars	FY 22	FY21	FY20
Equity Shares (in number)	142511454	142511454	142511454
Face value per Equity Share*	10.00	10.00	10.00
Total Dividend (in Rs. Crs)**	712.56	Nil	456.04
Total Dividend (including dividend distribution tax)***	712.56	Nil	549.78
Dividend per Equity Share	5.0	Nil	3.2
Dividend Rate (%)	50	Nil	30

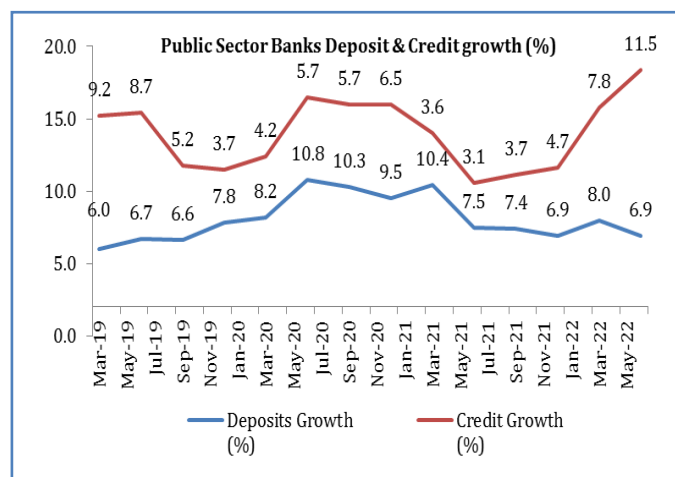
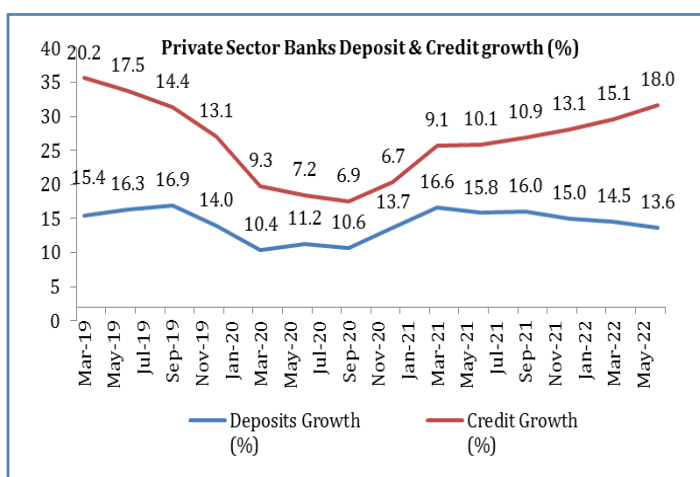
### Competitive Strengths

- 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.

### Risk Factors

- 37.73% of paid-up equity share capital or 53.76 million Equity Shares are subject to outstanding legal proceedings. The Bank's reputation and financial results could be impacted by adverse results in legal proceedings.
- The Bank has regional concentration in South India. Any adverse change in the economic, political, or geographical conditions of Tamil Nadu and other states in which bank operate can impact its results of operations.
- The Banks business is vulnerable to interest rate risk and any volatility in interest rates can adversely impact NIMs.
- TMBL relies extensively on information technology systems and any weakness, disruption or failure in such systems, or breach of data, could adversely affect operations and reputation.

### Private Banks continue to outpace public sector banks in Deposit and Credit growth



Source: Company's RHP, AUM Research



<b>Financial Highlights</b>				
<b>Particulars (Rs. Crs)</b>	<b>FY22</b>	<b>FY21</b>	<b>FY20</b>	<b>FY19</b>
Interest Earned	3833.86	3609.05	3466.11	3224.46
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<b>Capital and Liabilities (Rs.Crs)</b>				
Equity Capital	142.51	142.51	142.51	142.51
Reserves & Surplus	5193.19	4437.47	3837.13	3475.74
Deposits	44933.11	40970.42	36825.03	35136.25
Borrowings	0.00	0.00	324.00	0.00
Other Liabilities and Provisions	2589.67	1976.77	1630.12	1778.29
Total	52858.49	47527.17	42758.80	40532.80
<b>Assets ( Rs.Crs)</b>				
Cash and Balances with RBI	2113.11	1680.29	1414.41	1735.34
Balance with banks and money at call	1738.89	1024.79	2322.14	1185.01
Investments	13035.46	11703.21	9467.33	9106.59
Advances	33491.54	31069.60	27715.76	26487.94
Fixed Assets	210.84	137.18	128.45	138.38
Other Assets	2268.64	1912.10	1710.70	1879.53
Total	52858.49	47527.17	42758.80	40532.80
<b>Book Value (Value in Rs.)</b>	<b>374.41</b>	<b>321.38</b>	<b>279.25</b>	<b>253.89</b>
<b>Analytical Ratios</b>				
Capital Adequacy Ratio (%)	20.44	17.93	15.87	14.31
Gross NPA (%)	1.69	3.44	3.62	4.32
Net NPA (%)	0.95	1.98	1.80	2.40
Return on Assets (ROA %)	1.66	1.34	0.99	0.59
CASA Ratio (%)	30.50	28.52	25.85	24.64
Net Interest Margin (%)	4.10	3.77	3.64	3.65
Yield on advances (%)	9.45	9.65	10.19	12.17
Cost of Funds (%)	4.91	5.49	6.27	5.68
Provision Coverage Ratio (%)	87.92	79.53	80.75	73.61

**Aum Capital RESEARCH DESK**

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