



### Issue Highlights

Industry	Banking and financial services
Fresh Issue (Shares)	15,840,000
Net Offer to the Public	15,840,000
Issue Size (Rs. Cr.)	792-832
Price Band (Rs.)	500-525
Offer Date	5-Sep-22
Close Date	7-Sep-22
Face Value	10
Lot Size	28

### Issue Composition

	In shares
Total Issue for Sale	15,840,000
QIB	11,880,000
NIB	2,376,000
Retail	1,584,000

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	0.00%	0.00%
QIB	100.00%	97.50%
NIB	0.00%	1.50%
Retail	0.00%	1.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

The net proceeds from the issue will be utilized for the following purposes;

1. To augment tier-I capital base to meet future capital requirements.
2. Meet offer issue expenses.
3. To receive the benefits of listing the shares on the stock exchanges.

### Book Running Lead Manager

- Axis Capital Limited
- Motilal Oswal Investment Advisors Limite
- SBI Capital Markets Limited

### Name of the registrar

- Link Intime India Private Limited

### About the company

Incorporated in 1921, Tamilnad Mercantile Bank Limited (TMB) is one of the oldest and leading private sectors in India. It offers an array of banking and financial services to retail customers, micro, small, and medium enterprises (MSMEs), and more. The bank has a strong portfolio of advances and deposits from a diversified customer base including retail customers, agricultural customers, and MSMEs. As of March 31, 2022, it has a strong branch network of 509 branches and a total customer base of 5.08 million. The banks 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.

### Strength

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

With almost 100 years of history, The bank has 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 it to maintain a strong customer base. With a focus on increasing its existing customer base, the banks has also 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.

#### Strong presence in Tamil Nadu and consistent focus to expand presence in strategic regions:

Since the inception of the banks, the bank has built a strong and trusted network of customers in the State of Tamil Nadu. As of March 31, 2020, 2021 and 2022 its 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, the banks had 4.32 million customers, 85.03% of its overall customer base, contributing to its deposits and advances portfolios in the State of Tamil Nadu. Its current account and savings account deposits to total deposits are also competitive among peers at 30.50%. Apart from home state, the bank focuses on diversifying its reach in its already existing network including in the states of Gujarat, Maharashtra, Karnataka and Andhra Pradesh.

**Advances with focus on MSME, agricultural and retail segments:** 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 its customers, particularly in the RAM space and adopting strategies to target these customer segments for its growth. It has dedicated marketing managers and agri-officers across its regional offices who specifically focus on growing the network of its existing MSME and agricultural customers. The company has structured loan products available to meet the financial requirements of its MSME customers, which aids in growing its MSME customer base across all places where it is currently present. Its RAM business has consistently increased over the last three Fiscals from Rs. 23142.73 Crore in Fiscal 2020 to Rs. 29520.50 Crore in Fiscal 2022 at a CAGR of 12.94%.

**Consistently growing deposit base with focus on low-cost retail CASA:** During the last three Fiscals, its overall deposits base has increased from Rs. 36825 Crore in Fiscal 2020 to Rs. 40970 Crore in Fiscal 2021 to Rs. 44933 Crore in Fiscal 2022, owing to an increase in both term deposits and CASA deposits. Its CASA deposits as a share of total deposits has increased from rs. 9518 Crore or 25.85 % in Fiscal 2020 to Rs 11685 crore in Fiscal 2021 or 28.52% to Rs.13705 Crore in Fiscal 2022 or 30.50% with a CAGR of 20.00 %

from Fiscal 2020 to Fiscal 2022. Its 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.

**Strong asset quality, underwriting practices and risk management policies and procedures:** Its strong customer understanding, focus on secured granular loan products and strong under-writing and risk management framework has helped it to maintain and further improve asset quality and driving its growth with consistent profitability. This is particularly important to the bank given its RAM portfolio focusing particularly on its MSME customers. The bank focuses on selective lending and limits its exposure to certain industries and sectors as a part of its strategy to monitor concentration risk.

## Strategy

**Continue to strengthen its product portfolios across deposits and advances:** Its growth in the past few years has been driven by strong understanding of the needs and expectations of its RAM customers. Its RAM Portfolio has increased from Rs. 23142.74 Crore in Fiscal 2020 to Rs. 29520 crore in Fiscal 2022 at a CAGR of 12.94%. The banks also aims to expand the branch-wise targets by opening new Retail Assets Central Processing Centres (“RACPCs”) with dedicated home loan sales teams posted at these locations to drive further home loan portfolio growth. As of March 31, 2022, the Bank has one RACPC located at Chennai, Tamil Nadu, to which 36 branches of its Bank are linked. The housing loan portfolio of these 36 branches grew from 1,463 accounts with an outstanding amount of Rs.290 crore as on March 31, 2020 to 1,634 accounts with an outstanding amount of Rs. 340.63 crore as on March 31, 2022. The bank is also promoting investments in sovereign gold bonds floated by the RBI. With an endeavour to boost its revenue from fee based products, it continues to tie up with various financial and other institutions such as United India Insurance, Life Insurance Corporation, UTI Mutual Fund, Reliance Mutual Fund, Religare Securities Limited, and Stock Holding Corporation of India Limited. It also plans to focus on and develop this revenue stream further by scaling up its promotion of the insurance and mutual fund products in its Bank’s digital platforms apart from dedicated business campaigns.

**Transformation through technology to improve efficiency and customer experience:** The company believes that the increased availability of internet access and connectivity across India requires a comprehensive technology-driven strategy to proactively develop new methods of reaching its customers and running its businesses. Its technology-driven strategy is focused on acquiring new customers by enhancing customer experience through its digital interfaces. Its technology focus is also intended to enhance its loan approval capabilities, reduce overall turnaround time, and facilitate maintaining and developing long-term customer relationships by allowing its customers to interact with it and access their accounts from the comfort of their personal space. The bank invests in technology as a means of improving its customers’ experience, offering them a range of products tailored to their financial needs and making it easier for them to interact with the bank. While it has introduced internet and mobile banking to its customers around 10 years ago, it continues to launch better interfaces and platforms for ease of its customers to access and use its varied product portfolio and services. The company continues to focus on creating efficient Management Information Systems (“MIS”) and data analytics practices to monitor its portfolio and get actionable insights to help drive efficient decision making.

**Continue to improve asset quality:** It aims is to continuously monitor and improve asset quality by focusing on secured advances, high loan to value ratio, diversification across loan book tenures, low concentration across branches and more stringent audit procedures for sanction of the loans specifically focusing on higher value loans. Its risk assessment, mitigation and management measures towards reducing NPAs and managing its stressed assets portfolio is particularly important to the company, given its focus on its RAM portfolio. As per RHP, the bank will continue its focus on establishing and maintaining comprehensive strategies to achieve NPA targets by operating a dedicated credit recovery department and a region- wise cluster based oversight mechanism.

### Risk factor

- The Bank has a regional concentration in southern India mainly in Tamil Nadu.
- The majority of its business premises are leased
- The company depends on the accuracy and completeness of information about customers and counterparties.
- 37.73% of its 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 in the past.

### Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Karur Vysya Bank	6448.52	793.15	9.91	7.17	0.75	94.92	2.00	71.05	5685.99
Federal Bank	16674.77	2247.25	10.67	11.12	1.3	91.44	2.00	118.7	24990.97
CSB Bank	2309.4	512.01	29.51	7.13	1.46	143.92	10.00	210.5	3651.88
Karnataka Bank	7188.26	516.12	16.58	4.51	0.35	213.15	10.00	74.8	2328.47
RBL Bank	10849.63	504.76	8.42	14.51	0.58	209	10.00	122.2	7326.07
South Ind.Bank	7404.12	150.05	0.72	11.43	0.29	28.78	1.00	8.23	1722.33
City Union Bank	4990.03	812.32	10.98	16.49	2.03	89.05	1.00	181.1	13393.88
DCB Bank	4039.83	350.9	11.28	8.35	0.77	122.89	10.00	94.15	2928.36
Tamilnad Mercantile Bank Ltd.	4656.44	901.90	56.96	9.22	1.35	389.47	10.00	525.00	8313.45

### Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.525, the stock is priced at pre issue P/E of 8.30x on Annualised FY22 EPS of Rs.63.29. Post issue, the stock is priced at a P/E of 9.22x on its EPS of Rs.56.96. Looking at the P/B ratio at Rs.525, pre issue, book value of Rs. 374.41 of P/Bvx 1.40x. Post issue, book value of Rs.389.47 of P/Bvx 1.35x.

Considering the P/E valuation, on the lower end of the price band of Rs.500, the stock is priced at pre issue P/E of 7.90x on Annualised FY22 EPS of Rs.63.29. Post issue, the stock is priced at a P/E of 8.78x on its EPS of Rs.56.96. Looking at the P/B ratio at Rs.500, pre issue, book value of Rs. 374.41 of P/Bvx 1.34x. Post issue, book value of Rs.389.47 of P/Bvx 1.28x.

### Industry Outlook

The Indian banking sector is significantly under-penetrated, which provides immense opportunities for banks and other financial institutions. The domestic bank credit-to-private sector as % to gross domestic product (GDP) stood at 55% as of 2020. The banking sector enjoyed a healthy deposit compound annual growth rate (CAGR) of ~10% between fiscals 2016-21. With the outbreak of Covid-19 in fiscal 2021, conserving money became a priority and households reduced their private consumption, leading to 11% deposit growth in the fiscal. In the first half of fiscal 2022, the second wave of the pandemic forced both borrowers and lenders to tread cautiously, leading to muted growth in bank credit. Growth picked up in the third quarter of fiscal 2022, and with a mild third wave, the momentum continued in the fourth quarter supported by pent-up and festive season demand. Traditionally, public banks have accounted for the major proportion of the banking credit outstanding. However, low profitability, a weak capital position, low operational efficiency and an increase in stressed loans in the past few years led to slowdown in their loan growth. As a result, public banks gradually lost market share to private banks, which were relatively well capitalised and had a higher degree of operational efficiency. Public banks, which accounted for 71% share in credit outstanding in fiscal 2015, accounted for only 58% share in fiscal 2022.

## Outlook

The bank is the most popular bank from the southern region planning PAN India network. It has posted steady growth in its working year on year and is poised for better prospects post expansion of its network. A long term investor may opt the issue.

## An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	05-September-22
BID/ISSUE CLOSSES ON	07-September-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	12-September-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	13-September-22
Credit of Equity Shares to demat accounts of Allottees	14-September-22
Commencement of trading of the Equity Shares on the Stock Exchanges	15-September-22

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Mar-22 (12 Months)	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)
Interest Earned	3,833.86	3,609.05	3,466.11
Interest Expended	2,018.63	2,071.53	2,146.59
<b>Net Interest Income</b>	<b>1,815.23</b>	<b>1,537.53</b>	<b>1,319.52</b>
Other Income	822.58	644.35	526.42
<b>Net Total Income</b>	<b>2,637.80</b>	<b>2,181.88</b>	<b>1,845.94</b>
Operating Expenses	1,111.04	979.65	850.91
<b>Operating Profits</b>	<b>1,526.77</b>	<b>1,202.22</b>	<b>995.03</b>
Provisions & Contingencies	704.86	598.89	587.33
Profit Before Tax	821.91	603.33	407.69
Provision for Tax	-	-	-
<b>Net Profit for the year</b>	<b>821.91</b>	<b>603.33</b>	<b>407.69</b>
Add : Profit brought forward	79.99	50.71	57.20
<b>Profit After Tax</b>	<b>901.90</b>	<b>654.04</b>	<b>464.89</b>

#### Key Ratios

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Mar-22 (12 Months)	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)
CRAR % -Basel III	22.06	18.94	16.74
GNPA (%)	1.69	3.44	3.62
NNPA (%)	0.95	1.98	1.8
PCR (%)	87.92	79.53	80.75

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-22	As on 31-Mar-21	As on 31-Mar-20
Fixed Assets	210.84	137.18	128.45
Advances	33491.54	31069.60	27715.76
Investments	13035.46	11703.21	9467.33
Balances with Banks and Money at Call and Short Notice	1738.89	1024.79	2322.15
Cash and balances with Reserve Bank of India	2113.11	1680.29	1414.41
Other Assets	2268.64	1912.11	1710.70
<b>Total Assets</b>	<b>52858.49</b>	<b>47527.17</b>	<b>42758.80</b>
<b>Liabilities</b>			
Deposits	44933.12	40970.42	36825.03
Borrowings	0.00	0.00	324.00
Other Liabilities and Provisions	2589.67	1976.77	1630.12
<b>Total Liabilities</b>	<b>47522.78</b>	<b>42947.19</b>	<b>38779.15</b>
<b>NET Worth</b>	<b>5335.71</b>	<b>4579.98</b>	<b>3979.65</b>
Net worth represented by:			
Share capital	142.51	142.51	142.51
Other equity	5193.20	4437.47	3837.14
<b>Net Worth</b>	<b>5335.71</b>	<b>4579.98</b>	<b>3979.65x</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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