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Issue Detail	
Price Band (Rs)	Rs.500 - 525
Face Value (Rs)	10
Issue Size (Rs)	831.60Cr
Issue Type	Book Building
Minimum lot	28 Shares
Issue Opens	September 05, 2022
Issue Closes	September 07, 2022
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	September 12, 2022
Unblocking of Funds	September 13, 2022
Credit of shares to Demat Account	September 14, 2022
Listing on exchange	September 15, 2022

Other Detail	
Book Running Lead Managers	Axis Capital Limited, Motilal Oswal Investment Advisors Limited, SBI Capital Markets Limited
Registrar	Link Intime India Private Limited

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Tamilnad Mercantile Bank Limited

Company Background

Tamilnad Mercantile Bank ("TMB") was incorporated on May 11, 1921. TMB, headquartered at Thoothukudi (Tamil Nadu, India), is one of the oldest and leading old private sector banks in India, with a history of close to 100 years. The bank reported deposits of Rs.44,930 crore and advances of Rs.33,490 crore as of March 2022. It offers an array of banking and financial services to retail customers, micro, small, and medium enterprises (MSMEs), and more. As of March 31, 2022, they have 509 branches, of which 106 branches are in rural, 247 in semi-urban, 80 in urban and 76 in metropolitan centers. TMB has built a strong presence in the state of Tamil Nadu, with 369 branches and 949 automated teller machines ("ATMs") and 255 cash recycler machines ("CRMs"), 91 E-Lobbies, 3,939 PoS as of March 31, 2022.

Issue Details:

The offer comprises fresh issue of 1.58Cr equity shares to raise Rs.831.60 cr.

Issue Objectives :

- 1) To augment the bank's Tier - 1 capital base to meet the future capital requirements.
- 2) To receive the benefits of listing the shares on the stock exchanges.

IPO Share Allotment Pattern

Category	Allocation	Number of Shares	Issue Size at Rs.500 (Rs.Cr)	Issue Size at Rs.525 (Rs.Cr)
QIB	75%	1,18,80,000	594	624
Non-Institutional	15%	23,76,000	119	125
Retail	10%	15,84,000	79	83
Total		1,58,40,000	792	832

Source: Company RHP, ACMIIL Research

Outlook and Valuation

TMB is one of the oldest and leading private sectors in India. In the last three years, the company has generated strong revenue and margin expansion. Due to RBI's direction for listing, its branch expansion plan was on hold, but once it gets listed, it will expand its network. TMB can be a good investment avenue owing to its better growth with healthy asset quality, robust risk management system, equipped with basic retail banking infrastructure, and sizeable market to grow. However, Pending legal matters (refer to risk factors at the end of the report) may impact TMB if the verdict goes against the bank. At the upper price band of Rs.525/-, stock is priced at 1.35x its FY22 book value (based on fully diluted post issue equity). **We recommend subscribing to the issue from a long term perspective.**

Competitive Strengths

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

With almost 100 years of history, TMB has established themselves 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 their home state, along with Maharashtra, Gujarat, Karnataka, and Andhra Pradesh, which has enabled them to maintain a strong customer base. With a focus on increasing their existing customer base, they have 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.

They introduced internet banking to their customers in 2008 through 'TMB-Econnect' and utility payment facility which enabled their customers to pay bills. Their E-Lobbies are mini-branches which have been introduced with an aim to reduce human interface and cater to basic banking facilities of their customers.

Strong presence in Tamil Nadu with focus to increase presence in other strategic regions

Since their incorporation, TMB has built a strong and trusted network of customers in the State of Tamil Nadu. As of March 31, 2020, 2021 and 2022 their deposits and advances in the state of Tamil Nadu contributed to 75.93%, 76.33% and 75.06%, respectively, of their Total Business. As of March 31, 2022, they had 4.32 million customers, 85.03% of their overall customer base, contributing to their deposits and advances portfolios in the State of Tamil Nadu.

Apart from their home state, Tamil Nadu, TMB focuses on diversifying their reach in their already existing network including in the states of Gujarat, Maharashtra, Karnataka and Andhra Pradesh. As of March 31, 2022, their businesses, including the deposits and advances portfolios, in the state of Tamil Nadu, Maharashtra, Andhra Pradesh, Karnataka and Gujarat contributed 75.06%, 5.78%, 3.67%, 3.47% and 2.91% to their Total Business. Their focus to increase their markets share in these states more specifically in their home state.

Advances with focus on MSME, agricultural and retail segments

Bank's advances portfolio consists of a wide basket of retail finance and small ticket size MSME finance products. Their focus is on understanding the needs and expectation of their customers, particularly in the RAM space and adopting strategies to target these customer segments for their growth. TMB leverages their presence in semi-urban and rural regions where they are located to attract more customers in the RAM segment. They have dedicated branches at Thoothukudi and Chennai in Tamil Nadu, and at Surat, Gujarat to cater to the requirements of MSME customers in these regions.

TMB has structured loan products available to meet the financial requirements of their MSME customers, which aids in growing their 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).

Consistently growing deposit base with focus on low-cost retail CASA

TMB has adopted a customer-first approach, with an emphasis on customer relationships. Apart from the individual segment, they have focused on account sourcing on value based CASA products. During Fiscals 2020-22, their deposits increased at a healthy CAGR of 10.46% compared with peer median of 7.90%. TMB's digital banking channels enable a smooth transition from physical to digital usage and enhance customer experience, designed to grow their business and improve the margins.

Professionally managed Bank with experienced senior management team and board of directors

Bank's Board of Directors comprises 11 directors and 2 nominee directors appointed by the RBI. The 11 directors include their Managing Director and Chief Executive Officer and 10 Non-Executive directors, of whom 6 are Independent Directors, 1 of whom is a woman Director. Their senior management team's capabilities, reputation, extensive network of industry relationships, and wide ranging experience in the finance and banking industry is critical to their strategy to grow, modernise, and develop

further. They also have a robust, comprehensive training program for employees which help them improve and maintain the quality of customer service and retention of customers.

Strong asset quality, underwriting practices and risk management policies and procedures

TMB focuses on selective lending and limit their exposure to certain industries and sectors as a part of their strategy to monitor concentration risk. They have a Risk Management Committee to monitor their corporate customers on a monthly basis. TMB has reported a relatively lower GNPA of 1.69% as compared with 4.40% for their Peers (median) as of Fiscal 2022. The NPA have reduced from 1.80% in Fiscal 2020 to 0.95% in Fiscal 2022. They have maintained their PCR at 87.92% as of March 31, 2022.

As of March 31, 2022, TMB has 59.46% of their outstanding loan value with less than 12 months tenures including working capital facilities renewable annually, 17.45% of their outstanding loan value with a tenure of 12-60 months and 23.09% with a tenure of more than 60 months. As of March 31, 2022, their average loan outstanding per branch is Rs.66.30 crore.

Consistent Financial Performance

TMB focuses on increasing their digital footprint which in turn has improved their operational processes that has reduced the costs and resulted in improving the profitability of the Bank. The total income increased at a CAGR of 7.99% during 2020 to 2022. Their NIM has consistently grown over the years with an increase from 3.64% to 4.10% from Fiscal 2020 to Fiscal 2022 at a CAGR of 6.13%. The cost to income percentage has reduced from 46.10% in Fiscal 2020 to 42.12% in 2022 at a CAGR of 4.41%. PAT of the Bank increased at a CAGR of 41.99% during Fiscal 2020 to Fiscal 2022. ROE of the Bank increased at a CAGR of 24.31% from 10.73% in Fiscal 2020 to 16.58% in Fiscal 2022. ROA of the Bank increased at a CAGR of 29.49% from 0.99% in Fiscal 2020 to 1.66% in Fiscal 2022.

Key Financial and Operational Indicator

Particulars(Rs.Mn)	FY20	FY21	FY22
Total Business	6,50,612	7,25,115	7,86,813
Deposits	3,68,250	4,09,704	4,49,331
Credit to deposit ratio	75.26%	75.83%	74.54%
Cost of deposits	6.27%	5.49%	4.91%
Net advances	2,77,158	3,10,696	3,34,915
Yield on advances	10.19%	9.65%	9.45%
Credit cost	1.51%	1.37%	0.63%
Net interest income	13,195	15,375	18,152
Net interest margin	3.64%	3.77%	4.10%
Operating profit	9,950	12,022	15,268
Net profit	4,077	6,033	8,219
Net worth	39,797	45,800	53,357
Return on assets	0.99%	1.34%	1.66%
Return on equity	10.73%	14.10%	16.58%
CASA to total deposits ratio	25.85%	28.52%	30.50%
Cost to income ratio	46.10%	44.90%	42.12%
Gross NPA	3.62%	3.44%	1.69%
Net NPA	1.80%	1.98%	0.95%
PCR Ratio	80.75%	79.53%	87.92%

Source: Company RHP, ACMIIL Research,

Comparison with Listed Peers FY22:

Name of the Company	Total Revenue (Rs.Mn)	P/E	EPS (Basic) (Rs.)	Return on Net Worth (%)	NAV per share (Rs.)	P/B
Tamilnad Mercantile Bank Limited	46,564	9.22	57.67	15.4	374.41	1.35 [^]
City Union Bank Limited	48,639	12.54	10.29	11.54%	89.05	1.45
CSB Bank Limited	22,851	8.01	26.43	17.29%	152.78	1.38
DCB Bank Limited	39,648	7.49	9.26	7.10%	130.15	0.53
Federal Bank Limited	1,65,025	10.23	9.52	10.21%	91.58	1.05
Karur Vysya Bank Limited	63,567	5.5	8.42	8.86%	94.95	0.49
Karnataka Bank Limited	71,755	3.39	16.36	7.16%	227.98	0.24
RBL Bank Limited	1,07,964	NA	-2.77	-1.33%	209.01	0.62
South Indian Bank Limited	76,204	35.81	0.21	0.77%	27.97	0.27

All the financial information for listed industry peers mentioned above is on a consolidated basis and is sourced from the financial results of the respective company for the year ended March 31, 2022 submitted to stock exchanges. P/B Ratio has been computed based on the closing market price as on March 31, 2022. [^]P/B Ratio has been computed based on the Issue price and Post Issue FY22 Book value.

Risks and concerns:

- TMB planned a combo offer of fresh equity issue as well as OFS, the OFS part is totally scrapped in order to meet the issue deadline and the bank has already followed the legal formalities in this regard and the matter is pending with the Bombay High Court. Any adverse order, if any, passed by the concerned authorities at any subsequent hearings may affect IPO proceedings.
- There is 37.3% of paid up equity share capital / 53.7 mn equity shares which have outstanding legal proceedings which are pending with various forums and proceedings against the bank have been initiated by various regulatory authorities including RBI etc. Any adverse effect can impact the business and operations of the bank.
- TMB's contingent liabilities exceed their net worth, which, if they materialize, may adversely affect their results of operations, financial condition and cash flows.

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