

Tamilnad Mercantile Bank Ltd

Steady growth at reasonable valuations



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Target: INR 843.6
Upside Potential: 60.7%

Steady growth at reasonable valuations

With a history of almost a 100 years, Tamilnad Mercantile Bank (TMB) is one of the oldest private sector banks in India and among the leaders in its category too. TMB offers a wide range of banking and financial services, primarily to MSME, agricultural and retail customers. As of FY22, TMB has 509 branches, of which 106 branches are in rural areas, 247 in semi-urban, 80 in urban and 76 in metropolitan centres, with a customer base of ~5.08 million. We initiate coverage on TMB with a SUBSCRIBE rating and a price target of INR 843.6 (1.5x FY25), which represents a potential upside of 60.7% over the next 24 months.

Our conviction stems from the following:

- 12.3% CAGR of net advances over FY22-25, with Agriculture/Retail/MSME/Corporate growing at a CAGR of 12.6/12.7/12.7/9.9%, respectively.
- NII is expected to grow at 11.4% CAGR with average yields and cost of funds expected at 8.3% and 5.0%, respectively, by FY25.
- We have modeled the NIMs to be around 3.8% while other income is expected to grow at a 12.3% CAGR over the same period.
- PPOP is expected to grow at a 9.0% CAGR over FY22-25. PAT is expected to grow at 9.5% CAGR over the same period.
- Return ratios namely RoA and RoE are expected to decline by 13bps & 361bps over FY22-25 to 1.4% and 11.8%, respectively. We have modelled the cost to income ratio to increase by 413bps to 46.2% by FY25.

Industry Banks

Issue Details

Listing	BSE & NSE
Open Date	5, Sept 2022
Close Date	7, Sept 2022
Price Band	INR 500-525
Face Value	INR 10
Market Lot	28 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	NA
Fresh Issue	100.0%
Issue Size (Amt)	INR 831.6 cr
Issue Size (Shares)	1.58 cr
QIB Share (%)	≥ 75%
Non-Inst Share (%)	≤ 15%
Retail Share (%)	≤ 10%
Post issue M Cap	INR 8,295 cr

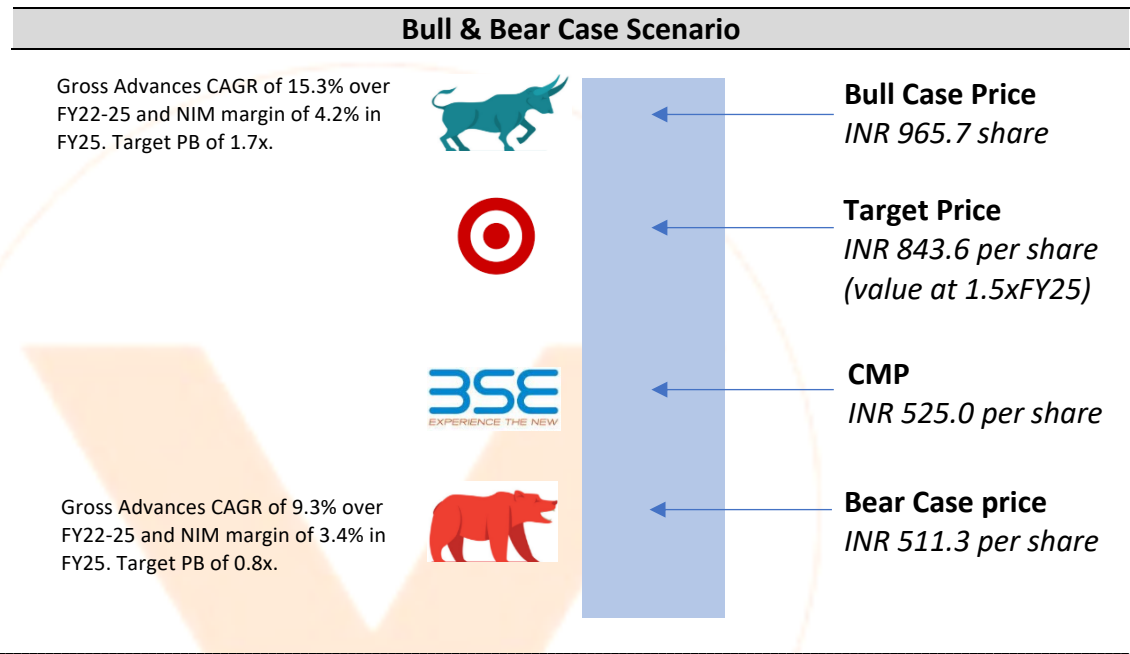
Key Financial Data (INR Cr, unless specified)

	Interest Earned	NII	PPOP	Net Profit	NIM (%)	EPS (₹)	BVPS (₹)	RoA (%)	RoE (%)	P/E (X)	P/BV (X)
FY21	3,609.0	1,537.5	1,202.2	603.3	3.7	38.1	289.2	1.3	13.2	13.8	1.8
FY22	3,833.9	1,815.2	1,526.8	821.9	3.9	51.9	337.0	1.6	15.4	10.1	1.6
FY23E	4,278.3	1,906.0	1,482.9	810.1	3.7	59.3	440.7	1.4	11.6	10.3	1.2
FY24E	4,833.3	2,194.1	1,717.4	938.2	3.7	68.1	499.9	1.4	11.9	8.9	1.1
FY25E	5,460.2	2,512.3	1,975.0	1,079.0	3.8	78.6	568.1	1.4	12.0	7.7	0.9

Our Bull and Bear Case Scenarios

We have prepared a Bull and Bear case scenario, with 3 variable sensitivity, based on FY25 advances, NIM margins & target PB for the bank.

- **Bull Case:** We have assumed FY25 Gross Advances of INR 52,106.9 cr in FY25 (CAGR of 15.3% over FY22-25) and NIM margins of ~4.2% (+40bps over FY22). We assign an FY25 target PB of 1.7x.
- **Bear Case:** We have assumed FY25 Gross Advances of INR 44,388.2 cr in FY25 (CAGR of 9.3%) and NIM margins of ~3.4% (-42bps over FY22). We assign an FY25 target PB of 0.8x.



Investment triggers

- **Steady Loan growth expectation:** TMB's loan book is expected to grow at a 12.3% CAGR over FY22-25E to INR 48,144.5.
- **Healthy growth in PPOP and Net Income:** Pre-provisioning operating profit is expected to grow at a CAGR of 9.0% to INR 1,979.4 cr over FY22-25. PAT is expected to grow at a CAGR of 9.6% to INR 1,081.4 cr by FY25.

Catalysts

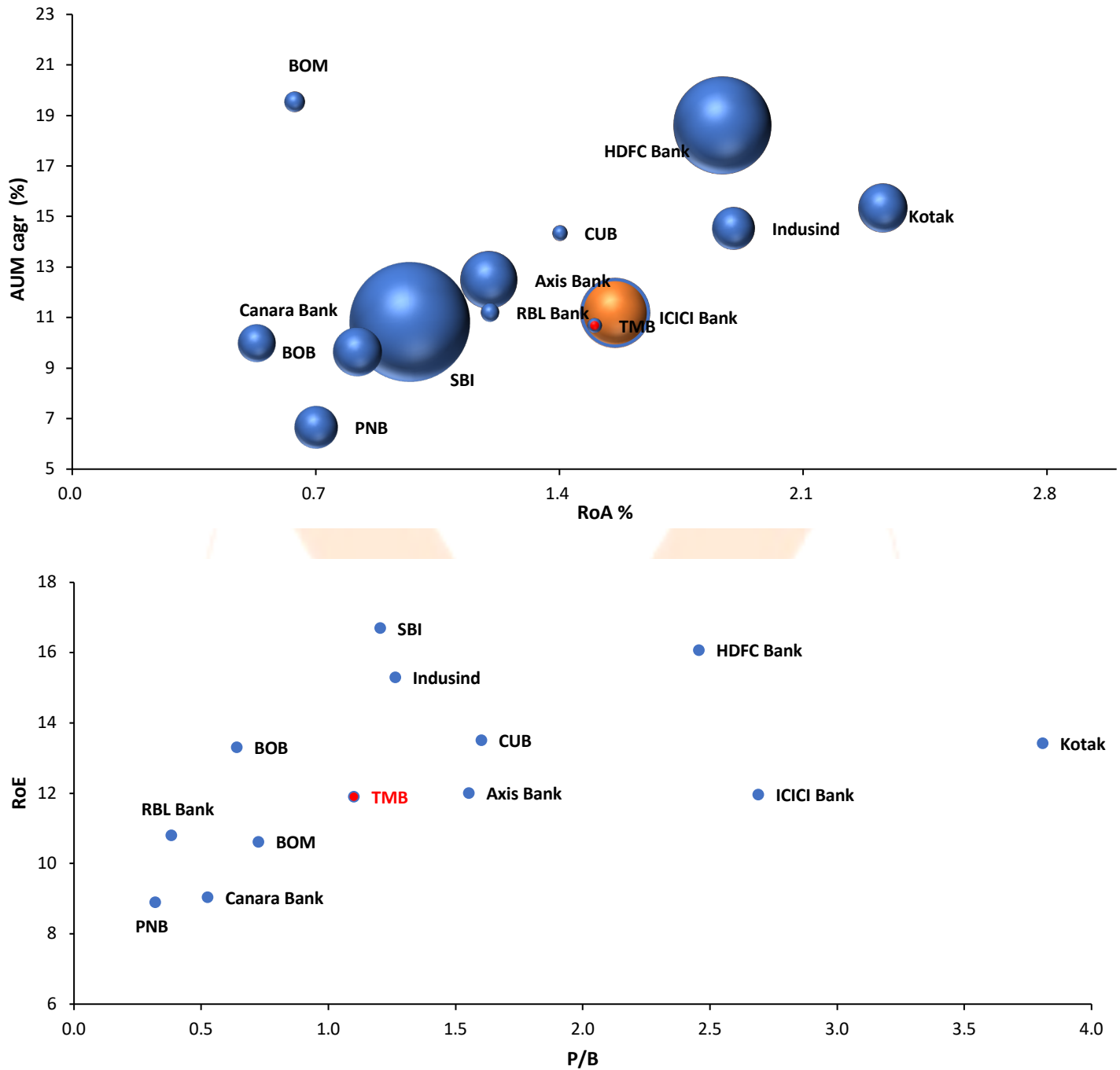
- **Improvement in NPA levels:** We have modelled the asset quality to deteriorate given its expansion into new geographies. However, an improvement in asset quality remains an upside risk.

Peer Valuation

All figures in bn																																								
		P/B Ratio			P/E Ratio			RoAE (%)			RoAA (%)				Total assets			Net interest income			NIM (%)			PPoP			PPOP (%)			Net income			GNPA (%)				NNPA (%)			
INR bn	Mkt Cap	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022.0	2023.0	2024.0	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024			
TMB	NA	1.6	1.2	1.1	10.1	10.3	8.9	15.4	11.6	11.9	1.6	1.4	1.4	528.6	598.6	671.6	18.2	19.1	21.9	3.9	3.7	3.7	15.3	14.8	17.2	84.1	77.8	78.3	8.2	8.1	9.4	1.7	1.8	2.0	0.9	1.0	1.0			
City Union Bank	120	2.2	1.9	1.6	15.9	13.8	11.3	12.2	12.5	13.5	1.3	1.3	1.4	615.3	692.6	777.9	19.2	22.5	25.4	4.0	4.1	4.1	16.0	17.2	19.5	83.2	76.3	76.9	7.6	8.8	10.6	4.7	3.6	2.6	3.0	2.2	1.5			
BOM	114	0.9	0.8	0.7	9.8	7.2	5.8	4.7	8.7	10.6	0.3	0.5	0.6	2,306.1	2,680.8	3,088.6	60	73	86	2.8	3.0	3.1	49	55	65	80.3	75.4	75.8	11.5	15.9	19.9	3.9	4.0	3.8	1.0	0.9	0.9			
HDFC Bank	8,148	3.4	2.9	2.5	22.0	19.5	16.5	16.7	16.0	16.1	1.9	1.8	1.9	20,685.4	24,556.0	28,197.2	720	894	1,030	3.9	4.2	4.1	641	710	834	89.0	79.4	81.0	369.6	417.3	493	1.17	1.1	1.1	0.32	0.4	0.3			
Axis Bank	2,269	2.0	1.7	1.6	17.4	15.4	13.7	12.0	12.0	12.0	1.2	1.2	1.2	11,751.8	13,073.5	14,614.2	331	403	458	3.5	3.6	3.7	250	293	341	75.4	72.9	74.5	130.3	147.0	165.7	2.8	2.6	2.3	0.7	0.6	0.5			
ICICI Bank	5,908	3.5	3.0	2.7	25.2	24.3	23.8	14.7	13.3	12.0	1.8	1.7	1.6	14,113.0	14,954.3	16,797.2	475	520	563	3.8	3.8	3.8	393	421	452	82.7	81.1	80.3	233.4	242.8	247.6	4.2	4.1	4.0	0.8	0.8	0.8			
Kotak	3,641	5.0	4.4	3.8	42.5	32.6	30.3	12.6	14.3	13.4	2.1	2.4	2.3	4,294.3	4,903.2	5,430.3	168	209	229	4.3	4.9	4.9	121	169	183	71.7	80.9	79.8	85.7	111.7	120.3	2.3	2.2	2.1	0.6	0.6	0.6			
Indusind	825	1.7	1.5	1.3	14.6	10.8	9.2	12.7	15.7	15.3	1.5	1.8	1.9	3,990.8	4,528.6	5,093.6	152	176	202	4.2	4.4	4.5	131	149	166	86.2	84.8	82.1	56.5	76.1	90.0	2.6	2.3	2.1	0.6	0.6	0.5			
RBL Bank	58	0.5	0.4	0.4	32.0	4.8	3.7	1.5	9.2	10.8	0.2	1.0	1.2	1,123.9	1,260.0	1,419.0	41	46	53	4.0	4.1	4.2	32	36	42	78.8	78.0	78.5	1.8	12.2	15.7	5.3	5.0	4.8	1.8	1.6	1.5			
SBI	4,612	1.6	1.4	1.2	10.2	7.7	6.1	13.6	15.6	16.7	0.7	0.9	1.0	49,434.0	54,278.0	60,054.0	1,214	1,363	1,546	2.9	3.0	3.1	769	894	1,046	63.3	65.6	67.7	453.6	600.8	750.0	4.2	3.8	3.2	1.3	1.3	1.1			
Canara Bank	411	0.6	0.6	0.5	8.9	6.2	5.8	7.4	9.6	9.0	0.4	0.5	0.5	12,479.5	13,960.1	14,448.7	259	292	313	2.7	2.8	2.8	217	248	261	83.7	84.8	83.5	46.3	65.9	70.8	7.9	7.3	6.6	3.1	2.7	2.1			
PNB	352	0.4	0.3	0.3	10.9	4.8	3.7	3.5	7.5	8.9	0.3	0.5	0.7	13,032.7	13,809.4	14,700.7	277	311	341	2.3	2.5	2.6	191	229	261	68.8	73.8	76.4	32.3	73.7	94.3	13.6	12.5	11.5	5.2	4.7	4.1			
BOB	615	0.8	0.7	0.6	8.1	6.5	5.1	10.1	11.6	13.3	0.6	0.7	0.8	12,408.0	13,862.0	15,518.0	324	368	400	2.8	2.9	2.8	228	242	258	70.4	65.8	64.5	76.0	95.0	121.0	6.2	4.2	3.3	2.1	1.4	1.0			

Source: Company Reports, Ventura Research, Bloomberg

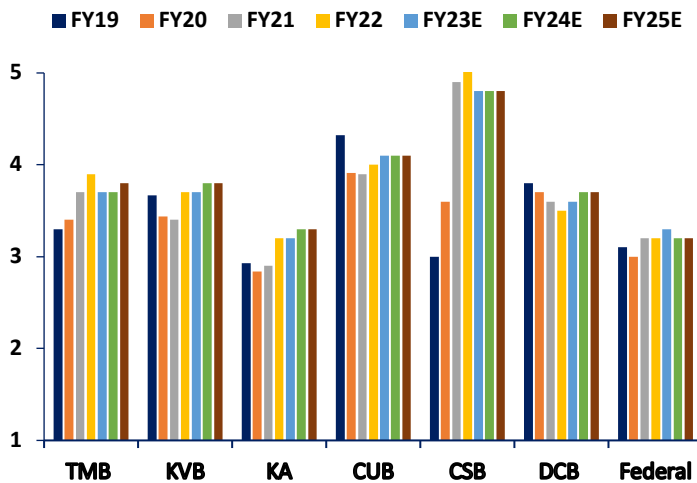
Steady AUM CAGR expectation with focus on return ratio



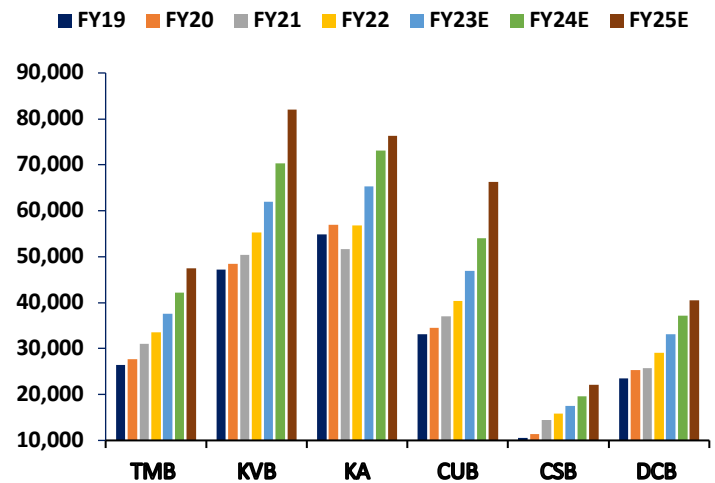
Source: Ventura Research, ACE Equity & Bloomberg, Size of bubble indicates NI in 2nd chart

TMB's Key Ratios comparison with its peers

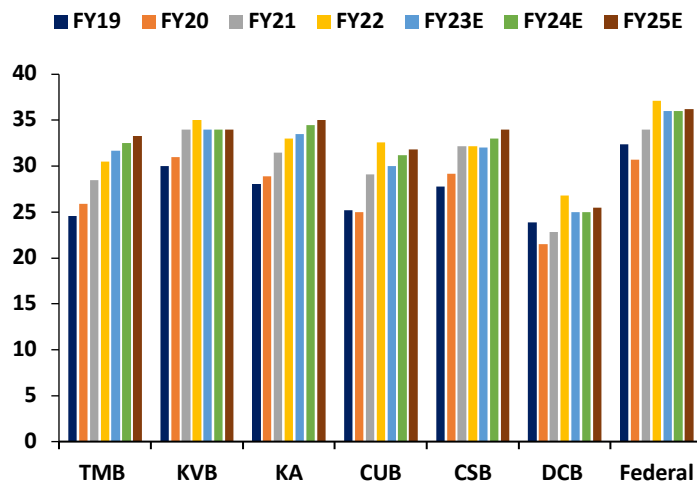
NIM %



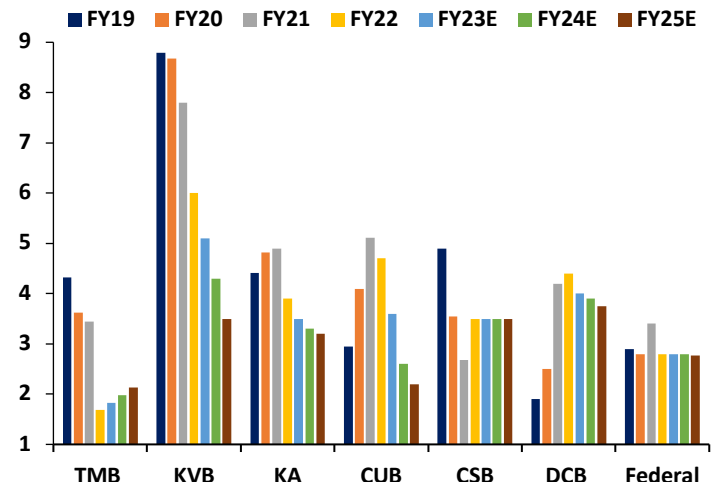
Advances (INR cr)



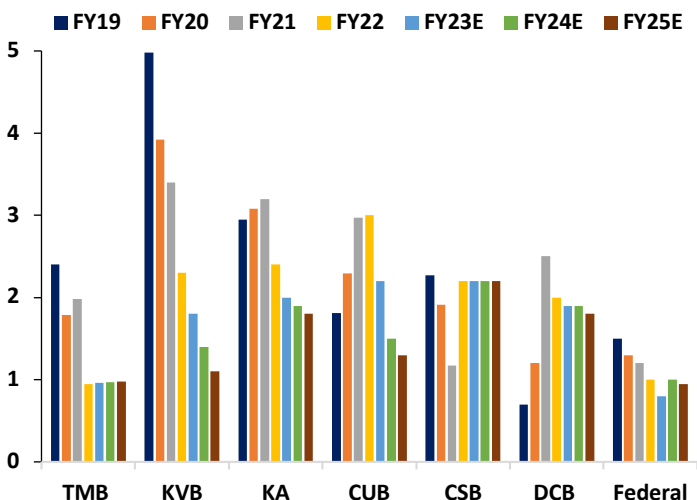
CASA %



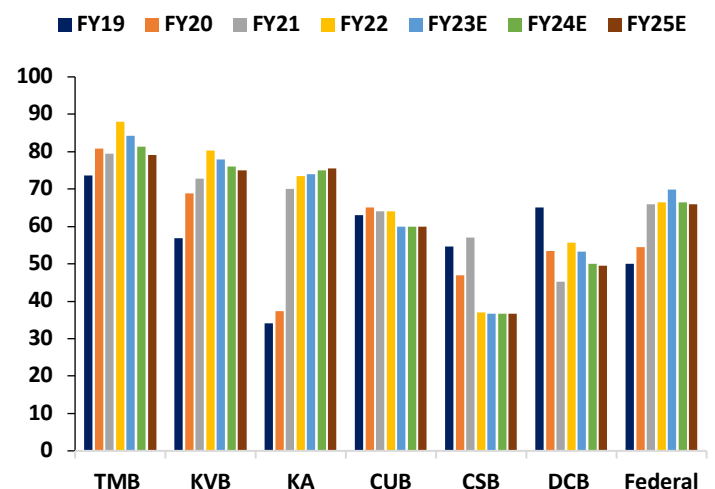
GNPA %



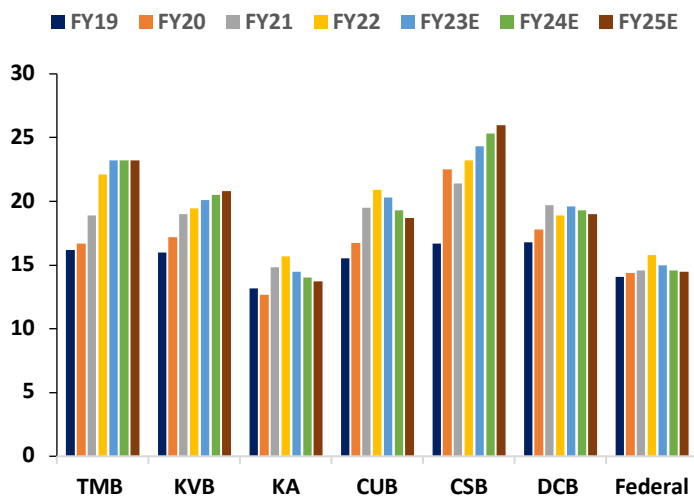
NNPA %



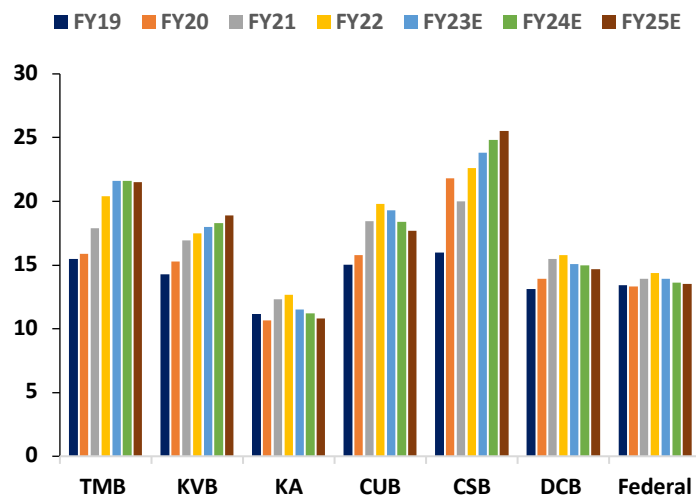
PCR %



CRAR %



Tier-1 %



Source: Company, Ventura research

Financial Analysis and Projections

TMB has historically performed well, registering a 8.1% CAGR growth in total advances to INR 33,491.5 cr in FY22 from INR 26,487.9 cr in FY19. Net Interest Income grew at a CAGR of 13.9% from INR 1,230.1 cr in FY19 to INR 1,815.2 cr in FY22. NIM margins have risen by 59bps to ~3.9% in FY22 (from 3.3% in FY19). Other income improved significantly at a CAGR of 25.7% to INR 822.6 cr in FY22 (from INR 414.3 cr in FY19). Operating profit increased at a CAGR of 20.0% to INR 1,526.8 cr in FY22 (from INR 884.3 cr in FY19). PAT reported a remarkable growth at a CAGR of 42.3% from INR 285.4 cr in FY19 to INR 821.9 cr in FY22.

The asset quality for the bank improved substantially, as the GNPA ratio's declined by 264bps to 1.7% in FY22 as compared to 4.3% in FY19; NNPA ratio's declined by 145bps to 1.0% in FY22 as compared to 2.4% in FY19. Provision Coverage Ratio (PCR) improved by 1451bps from 73.6% in FY19 to 88.1% in FY22.

Over the period FY22-25, we expect TMB's total advances and NII to grow at a CAGR of 12.3% & 11.5% to INR 47,432.0 cr & INR 2,517.4 cr, respectively. We expect the NIMs to be around 3.8% while other income is expected to grow at a 12.3% CAGR over the same period. Pre-provisioning operating profit is expected to grow at a CAGR of 9.0% to INR 1,979.4 cr over FY22-25. PAT is expected to grow at a CAGR of 9.6% to INR 1,081.4 cr by FY25.

Return ratios namely RoA and RoE are expected to decline by 13bps & 361bps over FY22-25 to 1.4% and 11.8%, respectively. We have modelled the cost to income ratio to increase by 413bps to 46.2% by FY25.

The asset quality for the bank is expected to deteriorate slightly, the GNPA ratios are expected to increase slightly to around 2.1% by FY25; NNPA ratios are expected to increase to 0.98% by FY25. Provision coverage ratio (PCR) is expected to decline around 79.1% by FY25.

As per management, it does not have large trading investments (HFT) which should insulate TMB against any increase in Bond Yields. However, it has approx. INR 2,800 cr in Available for Sale (AFS) with average duration of 3.5 – 3.8 years, which can lead to MTM losses in future, if the bond yield increases.

Financial Summary

Fig in INR Cr (unless specified)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Gross Advances	27,019.5	28,239.3	31,540.6	33,994.6	38,074.0	42,757.1	48,144.5	54,355.1	61,530.0	69,836.6	79,474.0	90,679.8
YoY Growth (%)		4.5	11.7	7.8	12.0	12.3	12.6	12.9	13.2	13.5	13.8	14.1
Retail	4,533.9	5,450.2	6,497.4	6,934.9	7,805.2	8,808.0	9,917.8	11,197.2	12,675.2	14,386.3	16,371.6	18,680.0
YoY Growth (%)		20.2	19.2	6.7	12.5	12.8	12.6	12.9	13.2	13.5	13.8	14.1
Agriculture	6,076.7	7,003.3	8,642.1	10,096.4	11,346.1	12,741.6	14,395.2	16,252.2	18,397.5	20,881.1	23,762.7	27,113.3
YoY Growth (%)		15.2	23.4	16.8	12.4	12.3	13.0	12.9	13.2	13.5	13.8	14.1
MSME	10,083.7	10,702.7	12,332.4	12,714.0	14,353.9	16,162.2	18,198.6	20,546.2	23,258.3	26,398.2	30,041.2	34,277.0
YoY Growth (%)		6.1	15.2	3.1	12.9	12.6	12.6	12.9	13.2	13.5	13.8	14.1
Corporate	6,322.6	5,083.1	4,068.7	4,249.3	4,568.9	5,045.3	5,632.9	6,359.6	7,199.0	8,170.9	9,298.5	10,609.5
YoY Growth (%)		(19.6)	(20.0)	4.4	7.5	10.4	11.6	12.9	13.2	13.5	13.8	14.1
Interest earned	3,224.4	3,466.1	3,609.0	3,833.9	4,278.3	4,833.3	5,460.2	6,185.9	7,027.9	8,006.9	9,146.6	10,476.0
YoY Growth (%)		7.5	4.1	6.2	11.6	13.0	13.0	13.3	13.6	13.9	14.2	14.5
Avg Yield (%)	8.7	9.0	8.6	8.3	8.2	8.2	8.3	8.3	8.4	8.4	8.5	8.5
Interest expended	1,994.3	2,146.6	2,071.5	2,018.6	2,372.3	2,639.2	2,947.9	3,301.5	3,712.2	4,185.0	4,730.4	5,361.0
YoY Growth (%)		7.6	(3.5)	(2.6)	17.5	11.3	11.7	12.0	12.4	12.7	13.0	13.3
Avg cost of funds (%)	5.7	5.9	5.3	4.7	5.0	5.0	5.0	5.0	4.9	4.9	4.9	4.9
NII	1,230.1	1,319.5	1,537.5	1,815.2	1,906.0	2,194.1	2,512.3	2,884.4	3,315.7	3,822.0	4,416.1	5,115.0
NIM (%)	3.3	3.4	3.7	3.9	3.7	3.7	3.8	3.9	3.9	4.0	4.1	4.1
Other income	414.3	526.4	644.3	822.6	921.3	1,034.6	1,164.9	1,315.2	1,488.8	1,689.8	1,923.0	2,194.1
Operating expenses	760.2	820.5	979.7	1,111.0	1,344.4	1,511.3	1,702.2	1,922.5	2,178.1	2,474.4	2,818.4	3,218.8
PPOP	884.3	995.0	1,202.2	1,526.8	1,482.9	1,717.4	1,975.0	2,277.1	2,626.4	3,037.4	3,520.7	4,090.4
YoY Growth (%)		12.5	20.8	27.0	(2.9)	15.8	15.0	15.3	15.3	15.6	15.9	16.2
As a % of NII	71.9	75.4	78.2	84.1	77.8	78.3	78.6	78.9	79.2	79.5	79.7	80.0
Provisions	598.9	587.3	406.9	411.7	399.9	463.1	532.6	614.0	708.2	819.0	949.3	1,102.9
PBT	285.4	407.7	795.3	1,115.1	1,083.1	1,254.3	1,442.5	1,663.1	1,918.2	2,218.4	2,571.4	2,987.5
Tax	0.0	0.0	192.0	293.2	272.9	316.1	363.5	419.1	483.4	559.0	648.0	752.8
PAT	285.4	407.7	603.3	821.9	810.1	938.2	1,079.0	1,244.0	1,434.8	1,659.4	1,923.4	2,234.6
YoY Growth (%)		42.9	48.0	36.2	(1.4)	15.8	15.0	15.3	15.3	15.6	15.9	16.2
GNPA	1,168.1	1,021.0	1,084.8	570.9	696.5	846.3	1,025.2	1,239.0	1,494.8	1,801.4	2,169.1	2,611.0
NNPA	636.5	497.5	613.8	317.8	359.7	408.1	464.3	529.6	605.5	694.2	797.8	919.2
GNPA %	4.3	3.6	3.4	1.7	1.8	2.0	2.1	2.3	2.4	2.6	2.7	2.9
NNPA %	2.4	1.8	2.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
CAR	16.2	16.7	18.9	22.1	22.8	22.9	22.9	22.9	22.8	22.8	22.7	22.6
Tier I	15.5	15.9	17.9	20.4	21.2	21.2	21.3	21.2	21.2	21.1	21.1	21.0

Source: Company Reports & Ventura Research

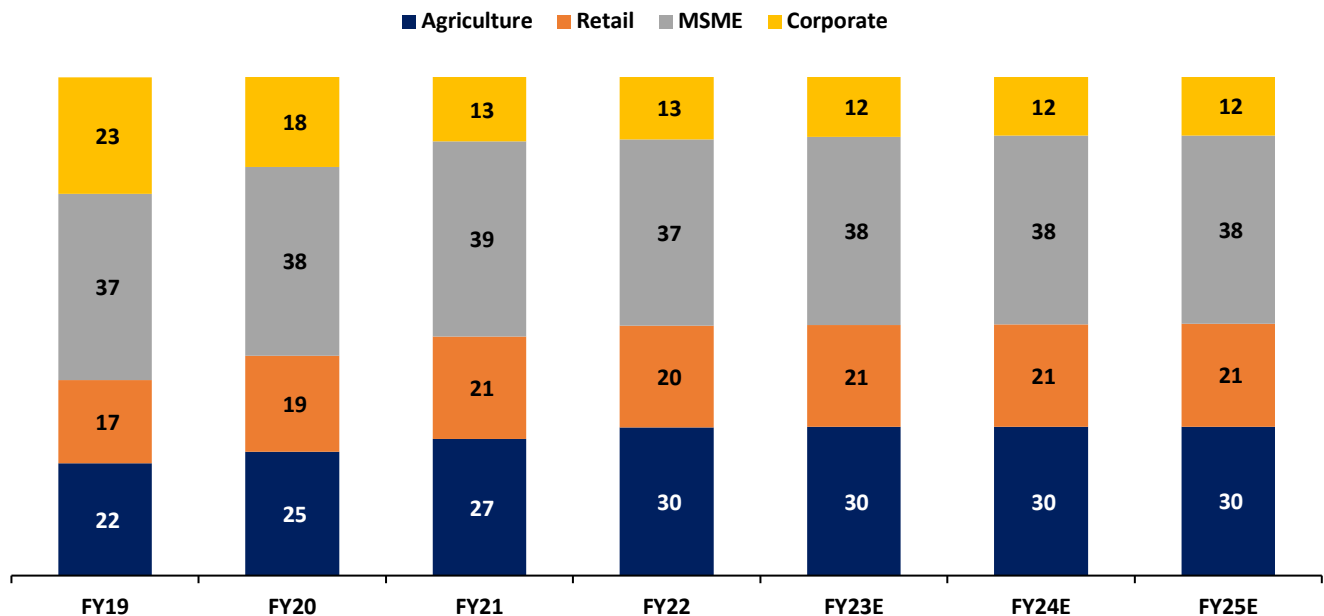
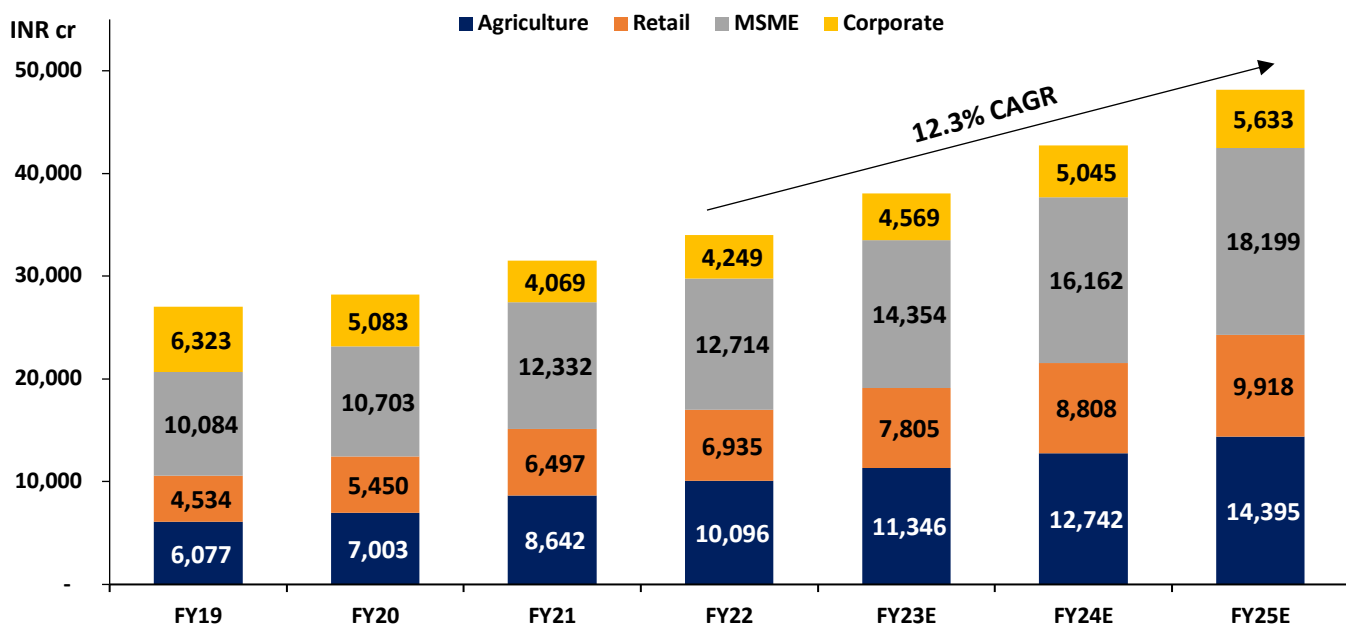
Key Investment highlights

We expect loan growth at a 12.3% CAGR between FY22-FY25E

TMB's loan book has grown at a 8.0% CAGR between FY19-22, we now expect the loan book to grow at a 12.3% CAGR over FY22-25E to INR 48,144.5 cr driven by:

- 12.7% CAGR in Retail loans to INR 9,917.8 cr
- 12.6% CAGR in Agriculture loans to INR 14,395.2 cr
- 12.7% CAGR in MSME loans to INR 18,198.6 cr
- 9.9% CAGR in Corporate loans to INR 5,632.9 cr

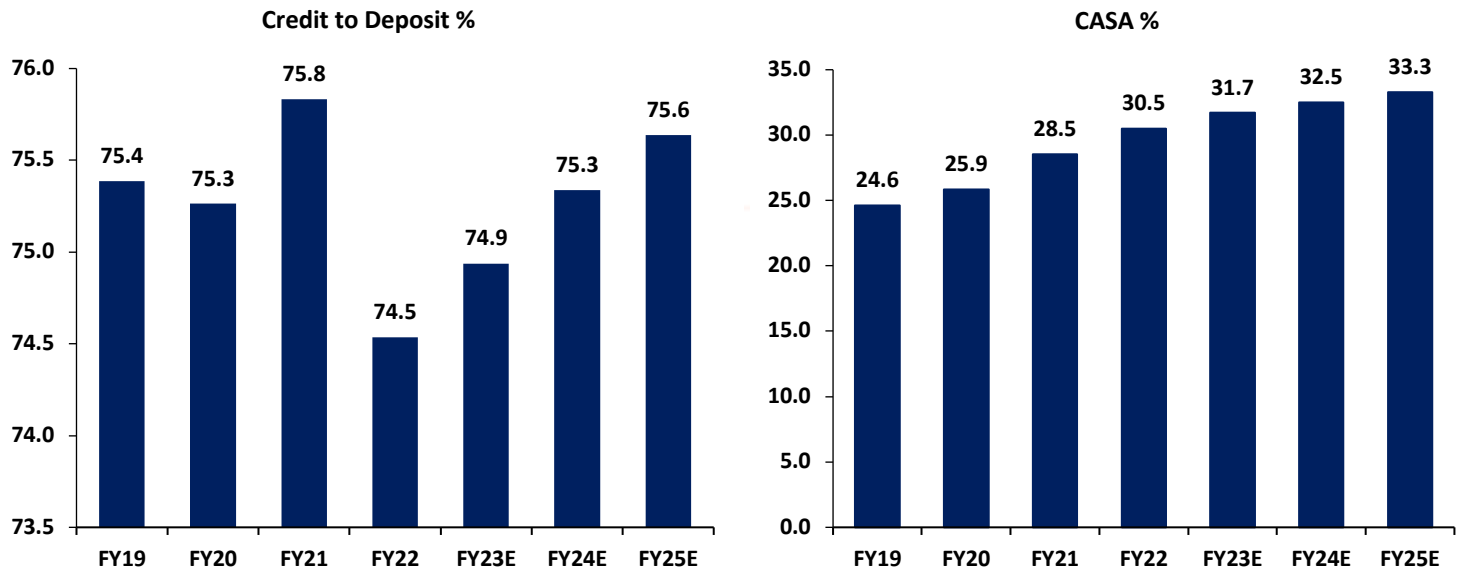
We expect advances to grow at a 12.3% CAGR over FY22-25E



Credit to deposit ratio & CASA ratio are expected to increase gradually

We expect the credit to total deposits ratio to reach 75.6% with the overall share of CASA expected to touch 33.3% of total deposits in FY25.

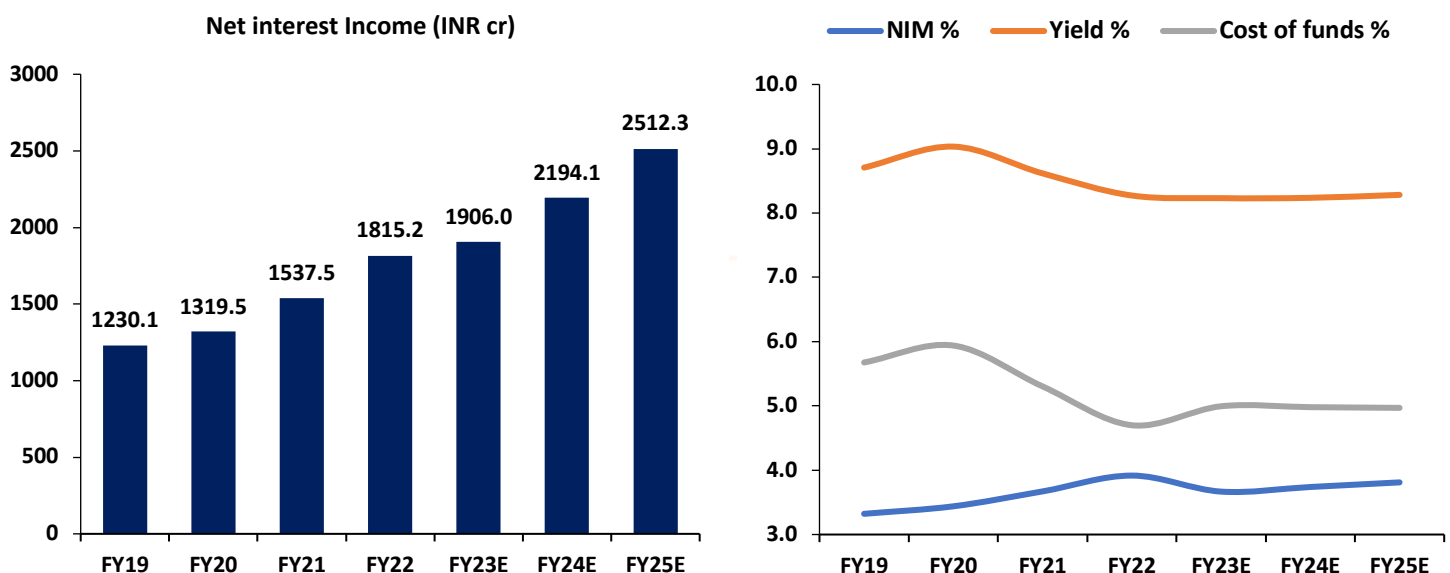
We have modelled credit to deposits at ~75.6% in FY25 while CASA is expected to grow to 33.3% in FY25



Source: Company, Ventura research

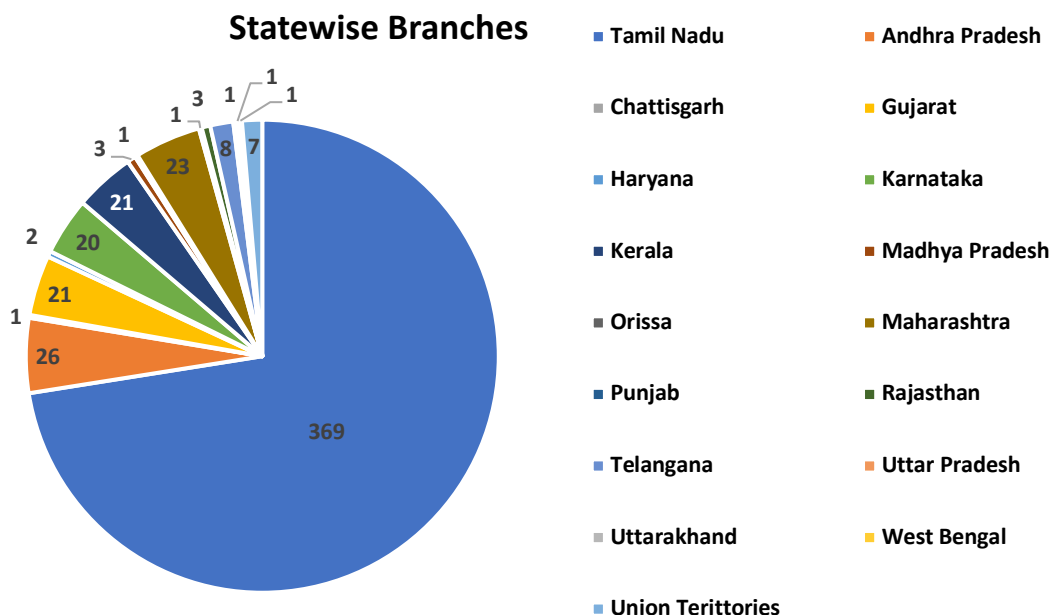
Further, with a rise in the loan book, we expect NII to grow at 11.4% CAGR over FY22-25. NIMs are expected to hover around the range of 3.7%-3.8% for the period FY22-25.

We expect NIMs to decline to -3.8% by FY22-25E



Source: Company, Ventura research

TMB's presence across the country



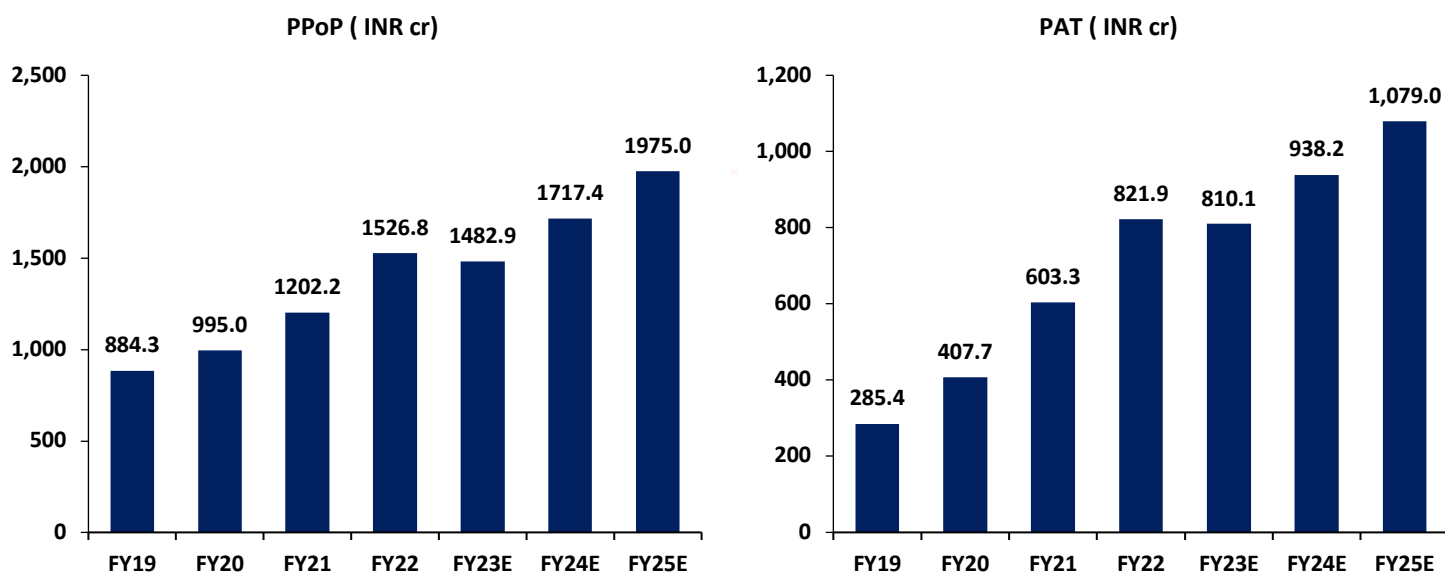
Source: Company, Ventura research

During the year FY21-22, TMB couldn't add any new branches, due to the guidelines issued by RBI, so the current branch count for the bank stands at 509, same as FY21. However, the bank did add 9 new ATMs and 22 new CRMs. TMB also added 52 new e-lobbies of which 4 are mobile e-lobbies. TMB's ATM and alternate delivery channel now stands at 1,141 ATMs, 282 CRMs, 101 e-lobbies spread across 16 states and 4 union territories.

PPoP & net income are expected to grow by 9.0% & 9.5% CAGR between FY22-25E

We expect the PPoP to grow by 9.0% CAGR over FY22-25E. We expect PAT to grow by 9.5% CAGR over FY22-25E.

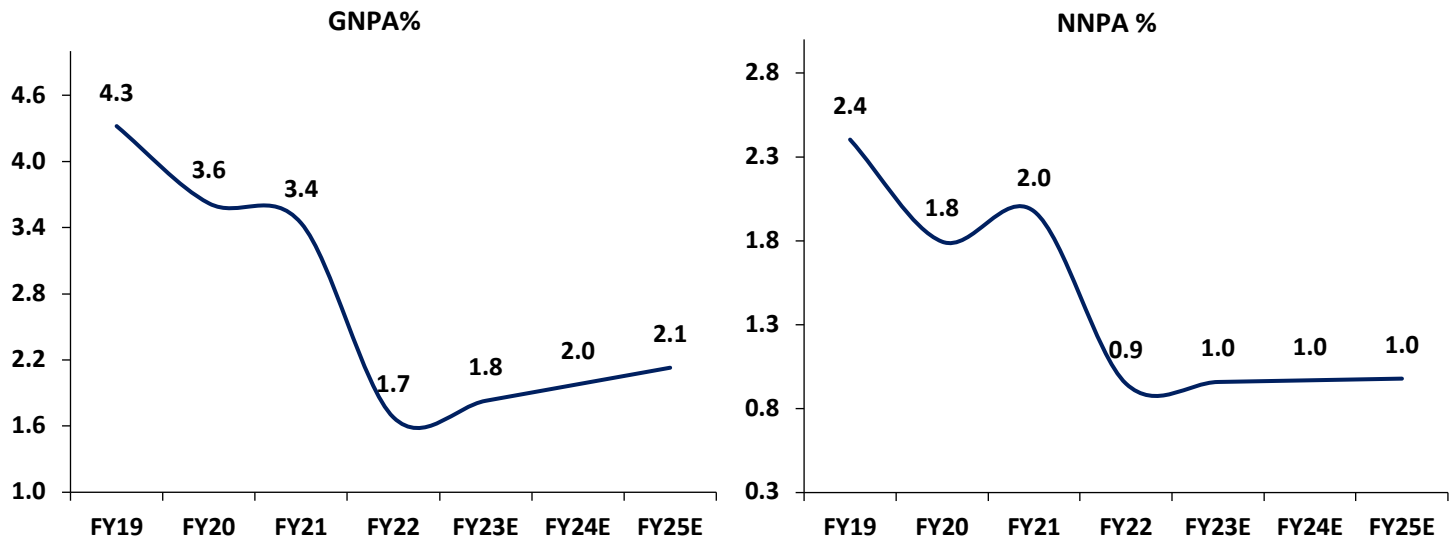
Net income is expected to grow faster for the bank as provisioning slows down from hereon



Source: Company, Ventura research

We expect the asset quality to deteriorate slightly from hereon, as TMB has previously focused only on a particular geography, i.e. Tamil Nadu, which helped them keep the asset quality in check, but now as it is looking to expand into new geographies, we have modelled slightly elevated NPLs.

We expect GNPA to grow by 30bps and NNPA to remain flat over FY22-25 respectively

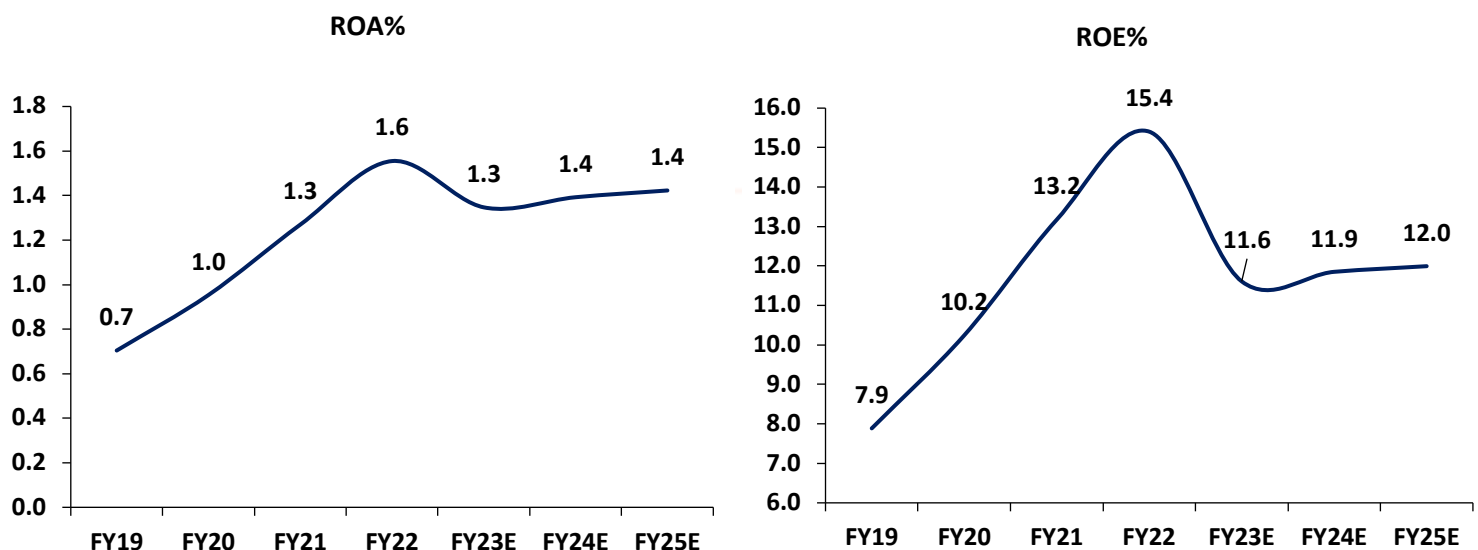


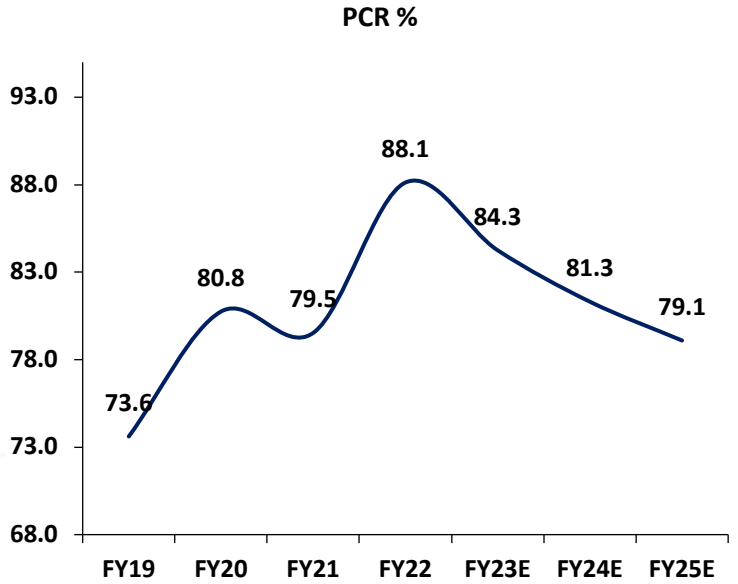
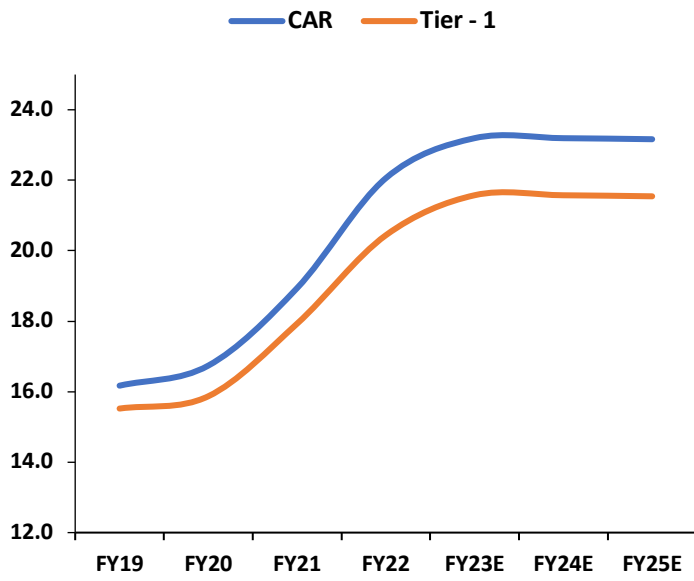
Source: Company, Ventura research

Return ratios, namely RoA and RoE, are expected to decline by 13bps and 340 bps to 1.4% and 12.0% respectively, given the fund infusion.

The bank has been extremely conservative in lending. Also, it has substantial room to raise funds from Tier-II instruments, given its extremely conservative approach.

Return ratio's, ROA and ROE are expected to decline for the period FY22-25





Source: Company, Ventura research

Valuation

We initiate coverage on TMB with a PT of INR 843.6 (1.5x FY25 standalone P/B) representing an upside of 60.7% over the CMP of INR 525.0 over 24 months. Our optimism stems from the following:

- Net advances are expected to grow at 12.3% CAGR over FY22-25E.
- NII is expected to grow at 11.4% CAGR over FY22-25E.
- PPOP & Net income are expected to grow at 9.0% & 9.5% CAGR over FY22-25E.



TMB's Key Management Personnel bring immense industry experience to the table

Key Person	Designation	Details
Thiru K.V Rama Moorthy	CEO & MD	Thiru K.V Rama Moorthy is a B.Sc (Agri), CAIIB and has a rich banking experience of over 34 years, and has carried out various roles from Agri Officer to Executive Director. He has previously been associated with Bank of Baroda, Union Bank of India and many other banks. During his tenure he was managing, supervising, controlling and guiding the entire operations of the Bank.
Thiru A.Nirranjan Sankar	Director	Thiru A. Nirranjan Sankar is a B Tech and a MBA, and is a leading businessman with close to 22 years of General Management experience in many SSI/Large Scale industries. He is also an executive director at M/s Pioneer Jellice India Private Limited.
Thiru S.R. Ashok	Director	Thiru S.R. Ashok is an MBBS., D.Ortho, he hails from a business family with a basic knowledge of trade and SSI. He is a Physician by profession, presently servicing at Thoothukudi Medical College Hospital. He previously served abroad, under the Ministry of Health, Kingdom of Saudi Arabia, from June 2005 to May 2008 and also served as professor in Pondicherry Institute of Medical Science (PIMS) from May 2010 to October 2013.
Thiru P.C.G Asok Kumar	Director	Thiru P.C.G Asok Kumar is a B.Sc., and has rich knowledge and experience in SSI Units for the past 23 years and has experience in both the primary and secondary stock market for more than 30 years.
Thiru D.N. Nirranjan Kani	Director	Thiru D.N. Nirranjan Kani has an M.A, and over 36 years of entrepreneurship experience in various companies. He possess special knowledge in SSI and marketing and is an Executive Director in WD & Sons Pvt Ltd., which manufactures branded coconut oil.

Source: Company, Ventura Research

Business Quality Score			
Key Criteria	Score	Risk	Comments
Management & Leadership			
Management Quality	9	Low	The management has full discretion in running operations.
Board of Directors Profile	9	Low	The board consists of directors with significant experience & industry knowledge.
Industry Consideration			
Industry Growth	7	Low	Credit growth is expected to be good in the near term due to high GDP growth expectations.
Regulatory Environment or Risk	8	Low	Banks operate in a moderately regulated environment under the supervision of RBI.
Entry Barriers / Competition	8	Low	Entry barriers are high due to license requirements but currently private banks are facing fierce competition from fintech players.
Business Prospects			
New Business / Client Potential	8	Low	TMB has previously only been centered in Tamil Nadu, but it is now looking for branch expansion into other states.
Market Share Potential	7	Low	Private banks are winning market share from PSUs.
Margin Expansion Potential	8	Low	NIMs are expected to stay more or less at the same levels as seen in FY22.
Earnings Growth	8	Low	We expect net income to grow at 12.2% CAGR over FY22-25.
Valuation and Risk			
Balance Sheet Strength	9	Low	The balance sheet strength is good as it is not dependent upon borrowings and can raise capital easily if and when required.
Total Score	81	Low	The overall risk profile of the company is good and we consider it as a low risk company for investments
Ventura score (%)	81		

Source: Company Reports & Ventura Research, Total score ≥ 75 = low risk, between 50-74 = medium risk, less than 50 = high risk

Annual Report Analysis

We analysed the FY22 annual report of TMB Bank and our key observations are as follows:

Key takeaways

- **Investments and Treasury Operations:** For the year ended March 31st, 2022, the Bank achieved a turnover of INR 46,468.9 cr in trading operations, resulting a net profit of INR 72.4 cr, as against INR 156.9 cr in the previous year. Sale of securities from the 'Held to Maturity' category was made to the tune of INR 999.6 cr during the year resulting in a profit of INR 20.9 cr.

The net investments of the Bank stood at INR 13,035.5 cr as on March 31st, 2022, as against INR 11,703.2 cr at the end of the previous year.

- **Deposit side:** The aggregate deposits of the bank stood at INR 44,933.1 cr for 31.03.2022, registering a growth of 9.7% YoY from INR 40,970.4 cr in 31.03.2021. The interest rates for deposits were kept aligned with the prevailing trends in the Banking Industry.
- **Foreign Exchange Business:** The total merchant turnover for the bank for the year 2021-22 was INR 18,625.7 cr against INR 15,582.1 cr during the previous year 2020-21. The profit from the foreign exchange business for the year 2021-22 was INR 37.3 cr against INR 29.4 cr during the previous year 2020-21.
- **Branch Network:** The bank couldn't open any new branches due to the restrictions imposed by RBI on the addition of new branches, so the branch count stands at 509 branches as of 31st March 2022. The bank has added 9 new ATMs, 22 new CRMs. It has also added 52 new e-lobbies of which 4 are mobile e-lobbies. The Bank's ATM and alternate delivery channel network stood at 1,141 ATM's, 282 CRMs, covering 16 states and 4 Union Territories.
- **Human Resources Development:** The Bank's total staff strength stood at 4,457 (including 38 contract employees) consisting of 1,932 officers, 1822 clerks and 703 supporting staffs. During FY2021-22, 220 regular employees and 14 contract employees were recruited, and 352 employees were promoted.
- **Core Banking:** The Bank has implemented "Finacle", a Core Banking Solution in all its branches. Core Banking Solution (Ver. 6.x) was implemented during 2001-02 and its major migration v7.0.25 was carried out during March 2014. At present, the Bank is in the process of migration to the next version of Finacle (Finacle 10.x).
- **Technology Advancements:** The bank has taken various steps to provide technology enabled products and services to customers by adopting the latest techniques in technology. Banking Services are extended to its customers through Branches and

ATMs by using multiple network technologies such as MPLS, Leased Line, VSAT, GSM and VPNOBB with redundant connectivity.

As an alternative to traditional Branches / ATMs, the digital services are seamlessly offered to customers without any disruption through various delivery channels viz. Internet Banking, Mobile Banking, AEPS, IMPS, UPI, Point of Sale terminals, Cash Deposit Kiosk, Passbook Printing Kiosk, Cheque Deposit Kiosk, Product Information Kiosk, WhatsApp Banking, CTS Positive Pay System, BBPS in Internet Banking, Green Pin in Internet Banking, Rupay Select Card, Enhanced Card Security for Debit Card Management, e-Mandate Authentication using Debit Cards and Internet Banking, etc.

Auditors' Qualifications & Significant Notes to Accounts

M/s Suri & Co. Chartered Accountants and M/s Abarna & Ananthan, Chartered Accountants are the joint statutory auditors for the year 2021-22. The auditors have not expressed any major qualification in their report.

Contingent Liabilities

Due to the very nature of the industry, contingent liabilities as a percent of net worth is high.

Contingent Liabilities are reasonably high				
INR cr	FY19	FY20	FY21	FY22
<u>Claims not acknowledged as debt</u>	11.2	112.4	135.3	135.3
Liability on account of Forward exchange contracts	5,074.7	5,297.7	9,188.7	6,643.4
<u>Gurarantees</u>				
In India	992.1	1,063.6	1,163.0	1,139.2
Outside India	-	-	-	-
<u>Acceptances, endorsements</u>	1,056.5	757.6	809.9	768.7
<u>Other items</u>	69.6	78.4	90.2	111.1
Total	7,204.1	7,309.6	11,387.1	8,797.7
<u>Networth</u>	3,618.3	3,979.6	4,580.0	5,335.7
As a % of networth	199.1	183.7	248.6	164.9

Source: Company Reports & Ventura research

Key Risks & Concerns

- **Competition with Fintech firms:** Private sector banks are currently facing fierce completion from fintech players.
- **Asset quality pain in new loans:** Any unexpected change in the economic outlook can lead to large slippages, even in new loans.

Issue Structure and Offer Details

The proposed issue size of TMB's IPO is INR 831.6 cr, which fully comprises of fresh issue of shares. The price band for the issue is in the range of INR 500-525 and the bid lot is 28 shares and multiples thereof.

Issue strcture	
Category	Allocation
QIB	At least 75% of public issue
Non institutional buyers	Not more than 15% of public issue
Retail	Not more than 10% of public issue

Source: Company Reports & Ventura Research

Financial Analysis & Projections

Y/E March (INR crore)	FY21	FY22	FY23E	FY24E	FY25E	Y/E March (INR crore)	FY21	FY22	FY23E	FY24E	FY25E
Income Statement						Ratio Analysis					
Interest Income	3,609.0	3,833.9	4,278.3	4,833.3	5,460.2	Efficiency Ratio (%)					
Interest Expense	2,071.5	2,018.6	2,372.3	2,639.2	2,947.9	Int Expended / Int Earned	57.4	52.7	55.4	54.6	54.0
Net Interest Income	1,537.5	1,815.2	1,906.0	2,194.1	2,512.3	Int Income / Total Funds	7.6	7.3	7.1	7.2	7.2
YoY change (%)	16.5	18.1	5.0	15.1	14.5	NII / Total Income	36.1	39.0	36.7	37.4	37.9
Non Interest Income	644.3	822.6	921.3	1,034.6	1,164.9	Other Inc. / Total Income	15.1	17.7	17.7	17.6	17.6
Total Net Income	2,181.9	2,637.8	2,827.3	3,228.7	3,677.3	Ope. Exp. / Total Income	23.0	23.9	25.9	25.8	25.7
Total Operating Expenses	979.7	1,111.0	1,344.4	1,511.3	1,702.2	Net Profit / Total Funds	1.3	1.6	1.4	1.4	1.4
Pre Provision profit	1,202.2	1,526.8	1,482.9	1,717.4	1,975.0	Credit / Deposit	75.8	74.5	74.9	75.3	75.6
YoY change (%)	20.8	27.0	-2.9	15.8	15.0	Investment / Deposit	28.6	29.0	29.2	29.4	29.6
Provisions	406.9	411.7	399.9	463.1	532.6	NIM	3.7	3.9	3.7	3.7	3.8
Profit Before Tax	795.3	1,115.1	1,083.1	1,254.3	1,442.5						
YoY change (%)	95.1	40.2	-2.9	15.8	15.0	Solvency					
Taxes	192.0	293.2	272.9	316.1	363.5	Gross NPA (Rs. Cr)	1,084.8	570.9	696.5	846.3	1,025.2
Net profit	603.3	821.9	810.1	938.2	1,079.0	Net NPA (Rs. Cr)	613.8	317.8	359.7	408.1	464.3
YoY change (%)	48.0	36.2	-1.4	15.8	15.0	Gross NPA (%)	3.4	1.7	1.8	2.0	2.1
Balance Sheet						Net NPA (%)	2.0	0.9	1.0	1.0	1.0
Cash & Balances with RBI	2,705.1	3,852.0	4,934.9	5,426.4	5,997.3	Capital Adequacy Ratio (%)	18.9	22.1	22.8	22.9	22.9
Inter bank borrowing	1,024.8	1,738.9	1,947.2	2,186.2	2,464.5	Tier I Capital (%)	17.9	20.4	21.2	21.2	21.3
Investments	11,703.2	13,035.5	14,621.9	16,445.0	18,569.1	Tier II Capital (%)	1.0	1.6	1.6	1.6	1.6
Loan and Advances	31,069.6	33,491.5	37,510.5	42,124.3	47,432.0	Per Share Data					
Other Assets	1,912.1	2,268.6	2,540.9	2,853.4	3,212.9	EPS	38.1	51.9	51.2	59.3	68.1
Total Assets	47,527.1	52,858.5	59,863.1	67,156.4	75,581.1	Book Value	289.2	337.0	440.7	499.9	568.1
Deposits	40,970.4	44,933.1	50,056.5	55,914.9	62,710.5	Adj Book Value of Share	250.5	316.9	417.9	474.1	538.7
Borrowings	0.0	0.0	0.0	0.0	0.0	Valuation Ratio					
Other Liability	1,976.8	2,589.7	2,829.2	3,325.8	3,875.9	Price/Earnings (x)	13.8	10.1	10.3	8.9	7.7
Equity	142.5	142.5	974.1	974.1	974.1	Price/Book Value (x)	1.8	1.6	1.2	1.1	0.9
Reserves	4,437.5	5,193.2	6,003.3	6,941.5	8,020.5	Price/Adj.Book Value (x)	2.1	1.7	1.3	1.1	1.0
Share warrant O/s	0.0	0.0	0.0	0.0	0.0	Return Ratio					
Total Liabilities	47,527.2	52,858.5	59,863.1	67,156.4	75,581.1	RoAA (%)	1.3	1.6	1.4	1.5	1.5
Dupont Analysis						RoAE (%)	14.1	16.6	13.2	12.6	12.8
% of Average Assets						Growth Ratio (%)					
Net Interest Income	3.4	3.6	3.4	3.5	3.5	Interest Income	4.1	6.2	11.6	13.0	13.0
Non Interest Income	1.4	1.6	1.6	1.6	1.6	Interest Expenses	-3.5	-2.6	17.5	11.3	11.7
Net Income	4.8	5.3	5.0	5.1	5.2	Other Income	22.4	27.7	12.0	12.3	12.6
Operating Expenses	2.2	2.2	2.4	2.4	2.4	Total Income	6.5	9.5	11.7	12.9	12.9
Operating Profit	2.7	3.0	2.6	2.7	2.8	Net profit	48.0	36.2	-1.4	15.8	15.0
Provisions & Contingencies	0.9	0.8	0.7	0.7	0.7	Deposits	11.3	9.7	11.4	11.7	12.2
Taxes	0.4	0.6	0.5	0.5	0.5	Advances	12.1	7.8	12.0	12.3	12.6
ROAA	1.3	1.6	1.4	1.5	1.5						

Source: Company Reports & Ventura Research

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