



### Tamilnad Mercantile Bank Limited

#### IPO NOTE

#### ISSUE KEY HIGHLIGHTS

PRICE*:	Rs. 500 – Rs. 525	ISSUE OPENS:	05 <sup>th</sup> Sep 2022
ISSUE SIZE:	Rs. 832 Crores	ISSUE CLOSES:	07 <sup>th</sup> Sep 2022

Particulars	No. of Shares @ Lower Band (Cr)	No. of Shares @ Upper Band (Cr)	Rs. In Cr. @ Lower Band	Rs. In Cr. @ Upper Band	% Of Issue
QIB	1.19	1.19	594.00	623.70	75%
NIB	0.24	0.24	118.80	124.74	15%
Retail	0.16	0.16	79.20	83.16	10%
Employee	-	-	-	-	-
Shareholder	-	-	-	-	-
<b>Total Issue</b>	<b>1.59</b>	<b>1.59</b>	<b>792.00</b>	<b>831.60</b>	<b>100%</b>

#### Issue Details:

Industry: Private Sector Bank

Promoters: PROFESSIONALLY MANAGED

Selling Shareholders: None

#### Capital Structure:

Fresh Issue (@Higher Band) Rs. 832 Cr.

Offer for Sale (@Higher Band) NIL

Total Issue as % of total capital (Post-Issue) (@Higher Band) 10%

Post Issue No. of Shares @ Higher Band (Cr.) 15.84

Post Issue Market Cap @ Higher Band (Rs. Cr.) 8,314

Face Value 10

Issue Route Book Build Issue

Bid Lot (Shares) 28

Lead Managers: Axis Capital, Motilal Oswal Investment Advisors, SBI Capital Markets

Registered Office Thoothukudi, Tamil Nadu

Registrar Link Intime India Pvt Ltd

Listing BSE and NSE

#### Key Investment Details for Retail Investors: (UPI or ASBA)

Min No. of Shares - Application 28

Amount on the Min. Application (Rs.) Rs. 14,700

#### An Indicative timetable post issue closing:

Particulars	On or about
Finalization of Basis of Allotment	12-Sep-2022
Refunds/un-blocking of ASBA Accounts	13-Sep-2022
Credit of Equity Shares to DP Ac	14-Sep-2022
Trading Commences	15-Sep-2022

#### Shareholding %:

Particulars	Pre-Issue	Post Issue
Promoters	NIL	NIL
Public	100.00	100.00
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

#### Issue Highlights:

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 ₹ 44,930 crore and advances of ₹ 33,490 crore as of March 2022.

□ During fiscals 2020-22, TMB’s deposits increased at a healthy CAGR of 10.46% (compared with peer median:7.90%), falls in Top-5 amongst its peers; while its advances increased at a CAGR of 9.93% (compared with peer median: 8%).

□ TMB’s current account and savings account deposits to total deposits are also competitive among peers at 30.50%.

□ TMB’s net profits increased at a CAGR of 41.99% during fiscal 2020-22, with the bank reporting second highest net profit at ₹ 820 crore during fiscal 2022 amongst the peers.

□ In fiscal 2022, TMB also reported a comparatively low credit cost ratio of 0.27%. The Bank’s return on assets (RoA) was at 1.66% compared with peers that have a median RoA of 0.80%.

□ The trend is similar in the Return on Equity ratio, where the company outperformed peers at 16.58% in fiscal 2022, while its peers reported a median of 8.30%. TMB is also well-capitalised with a tier-1 capital adequacy ratio of 20.44%.

□ 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 centres

□ 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.

#### Brief Financial Details\*:

(Rs. In Cr.)

Particulars	As at Mar’31		
	2022	2021	2020
Equity Share Capital	142.51	142.51	142.51
Reserves	5193.20	4437.47	3837.14
Net worth as stated	5335.71	4579.98	3979.65
Interest Income	3,833.86	3,609.05	3,466.11
Revenue Growth (%)	6.23%	4.12%	-
EBITDA	1566.74	1251.62	1030.10
Net Profit for the period	821.91	603.33	407.69
EPS Diluted (Rs.)	57.67	42.34	28.61
RONW (%)	15.40%	13.17%	10.24%
Net Asset Value (Rs.)	374.41	321.38	279.25

\*Restated Statement, #Reserve includes Statutory Reserve and Capital Reserves

\*Source: RHP

For additional information & risk factors please refer to the Red Herring Prospectus.

## OBJECTS OF THE ISSUE

Our Bank proposes to utilize the Net Proceeds towards augmenting its Tier-I capital base to meet its future capital requirements.

Further, the Gross Proceeds from the Offer will also be used towards meeting the expenses in relation to the Offer.

The Net Proceeds are proposed to be utilized towards augmentation of our Bank's Tier-I capital base to meet our Bank's future capital requirements which are expected to arise out of growth in our Bank's assets, primarily our Bank's loans/advances and investment portfolio and to ensure compliance with regulatory requirements on capital adequacy prescribed by the RBI from time to time.

Considering our Tier-I position, our Bank has no plans to augment the Tier-II capital in the near future. In the event that our Bank decides to augment its Tier-II capital in the future, it shall be in compliance with the applicable RBI directions and guidelines.

## SHAREHOLDING PATTERN

Shareholder	Pre-offer		Approx. No. of Shares offered	Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital
<b>Total - Promoter &amp; Promoter Group</b>					
Promoter	NIL	NIL	-	NIL	NIL
Promoter Group	NIL	NIL	-	NIL	NIL
Public	142,511,454	100.00%	1,58,40,000	15,83,51,454	100.00%
<b>Total Equity Shares</b>	<b>142,511,454</b>	<b>100.00%</b>	<b>1,58,40,000</b>	<b>15,83,51,454</b>	<b>100.00%</b>

## OFFER DETAILS

The Offer	No. of Shares	
Fresh Issue (Rs. 832 Cr.)	Approx. 1,66,32,000 – 1,58,40,000 Shares	
Offer for Sale : Name of Selling Shareholder	Amount ( Rs. In Cr. )*	Weighted Average Cost of Acquisition per Equity Share on a fully diluted basis (Rs.)
Selling Shareholder:	NONE	
*Calculated on Higher Price Band		
<b>TOTAL</b>		

## BUSINESS OVERVIEW

Tamilnad Mercantile Bank Limited (“**TMB**”) is one of the oldest and leading old private sector banks in India with a history of almost 100 years. They offer a wide range of banking and financial services primarily to micro, small and medium enterprises (“**MSME**”), agricultural and retail customers (“**RAM**”). 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. Their overall customer base is approximately 5.08 million as of March 31, 2022 and 4.05 million or 79.78% of their customers have been associated with them for a period of more than 5 years and have contributed to ₹35,014.24 crore or 77.93% to their deposits and ₹ 21,902.23 crore or 64.90% to their advances portfolios as of March 2022. They had the 2nd highest Net Profit for Fiscal 2022 amongst their Peers, and their Return on Assets was also higher at 1.66% compared to a median 0.80% for their Peers for Fiscal 2022.

TMB was incorporated as ‘Nadar Bank Limited’ in 1921 and their name was changed to ‘Tamilnad Mercantile Bank Limited’ in the year 1962. They received their license to carry on banking business from the Reserve Bank of India in 1962. Since their incorporation, having head quartered at Thoothukudi, Tamil Nadu, India, they have 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.

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%). As of March 31, 2022, their deposits and advances portfolio in the state of Tamil Nadu has contributed 75.06% to their Total Business. They also focus on diversifying their growth in other high growth regions of India which will help increase their network and client base. Other than Tamil Nadu, they are present in 15 other states and 4 union territories of India. Apart from Tamil Nadu, they have 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. They have also been consistently growing their customer base from approximately 4.66 million as of March 31, 2020 to approximately 4.91 million as of March 31, 2021 to approximately 5.08 million as of March 31, 2022 at the CAGR of 4.36% from Fiscal 2020 to 2022. Their focus on quality of service and nurturing long term relationship with their customers has enabled them to develop a well-recognized and trusted brand in south India, particularly in Tamil Nadu, India.

## PRODUCT PORTFOLIO

The products and services offered to their customers can be divided into 2 categories - Asset Products (i.e. advances) and Deposit Products.

### Asset Products

Their Asset Products target the RAM customers, which include MSMEs, agricultural customers, retail customers, and their corporate customers.

### Advances:

TMB’s advances portfolio primarily consists of lending to (a) Retail customers; (b) agricultural customers and (c) MSMEs (“**RAM**”).

**Agricultural customers:** TMB primarily offer loan products to individual farmers, group of farmers and agricultural corporates. During the Fiscals 2020, 2021 and 2022 agricultural customers contributed 24.77%, 27.41% and 29.70% respectively to their total advances with a CAGR of 19.70% from March 31, 2020 to March 31, 2022.

**Retail customers:** TMB primarily offer home loans, personal loans, auto loans, educational loans as well as security backed loans of various types to their retail customers. During the Fiscals 2020, 2021 and 2022 retail customers contributed 19.27%, 20.60% and 20.39% respectively to their total advances with a CAGR of 12.46% from March 31, 2020 to March 31, 2022.

#### **Home Loans :**

TMB offers long-term housing loans '**TMB Home Loans**' catering to various housing requirements of individuals ranging from purchase, construction and renovations. The loan amount under the TMB Home Loans ranges from ₹30 million in non-metro regions to ₹ 50 million in metro regions. They also offer customised loans for renovations up to a maximum limit of ₹ 2.50 million.

#### **Loan Against Property ("LAP")**

TMB offers financial support against properties that cater towards providing finance to clients. These loans are typically sanctioned for customers with a regular banking relationship and the credit ranges from ₹0.1 million to ₹50 million subject to various conditions. Bank's LAP portfolio increased at a CAGR of 3.19% from ₹ 406.27 crore in Fiscal 2020 to ₹ 432.60 crore in Fiscal 2022.

#### **Vehicle Loans**

TMB offers a variety of secured loans under the vehicle loan portfolio for personal and commercial purposes. Bank's vehicle loan portfolio increased at a CAGR of 6.09% from ₹ 401.53 crore in Fiscal 2020 to ₹ 451.95 crore in Fiscal 2022.

**TMB Personal Loan schemes** are for assisting individuals to meet their various family and personal needs and **TMB Educational Loan schemes** offer financial support to eligible students for pursuing higher education as determined by the institution/ organization offering the educational course.

#### **Corporate customers:**

TMB offers various kinds of loans to corporates, in textiles and other industries, with their assortment of banking products and services including working capital, term financial, trade financial, structured finance services, foreign exchange business funding in domestic and foreign currencies. During the Fiscals 2020, 2021 and 2022 corporate customers contributed 18.04%, 12.92% and 12.53% respectively to their total advances with a CAGR of (8.89%) from March 31, 2020 to March 31, 2022.

From Fiscal 2020 to Fiscal 2022, the overall advances portfolio has increased at a CAGR of 9.33%.

**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;
- Consistent financial performance.

**KEY BUSINESS 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.

**COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2022)**

Name of the Company	Consolidated / Standalone	FV	Closing Price	Market Capitalisation(MC) (₹ Cr)*	Total Revenue (₹ Cr)	EPS (Basic)	NAV	P/E*	RoNW
<b>Tamilnad Mercantile Bank</b>	Consolidated	10	NA	NA	4,566.44	57.67	374.41	[ · ]	15.40%
<b>Peer Group</b>									
City Union Bank Ltd	Consolidated	1	180.30	13,334.72	4,863.86	10.29	89.05	12.54	11.54%
DCB Bank Ltd	Consolidated	10	92.55	2,878.60	3,964.80	9.26	130.15	7.49	7.10%
Federal Bank Ltd	Consolidated	2	119.45	25,137.01	16,502.46	9.52	91.58	10.23	10.21%
Karnataka Bank Ltd	Consolidated	10	73.65	2,292.67	7,175.54	16.36	227.98	3.39	7.16%

All the financial information for listed industry peers of the Company mentioned above is on a consolidated basis (unless otherwise available only on standalone basis)

\*P/E Ratio has been computed based on the closing market price of the equity shares (NSE) on March 31, 2022,

\*Market Capitalization is computed/stated as on September 02, 2022

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