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28.07.2023

The Manager,
Bombay Stock Exchange limited,
Phiroze Jeejeebhoy Towers,
Dalal Street.
Mumbai – 400 001.
Scrip Code: 543596

The Manager,
National Stock Exchange of India Ltd,
Exchange Plaza, 5th Floor, Plot No. C/1,
'G' Block, Bandra - Kurla Complex,
Bandra (East), Mumbai - 400 051.
Symbol: TMB

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call – Q1 Results

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that the transcript of the earnings conference call hosted by the Tamilnad Mercantile Bank Limited on Unaudited Financial Results of the Bank for the quarter ended June 30, 2023, has been made available on the Bank's website at the following link:

[Transcript of the Earnings Conference Call – Q1 Results](#)

We are also attaching the Transcript of the earnings call with this intimation.

Kindly take the same on record.

Yours faithfully,

For Tamilnad Mercantile Bank Limited



Prakash Chandra Panda
Company Secretary and Compliance Officer



**Tamilnad Mercantile Bank Limited
Q1 - FY 2023-24 Earnings Conference Call**

July 25, 2023

Management :

- Mr. S. Krishnan, Managing Director & CEO**
- Mr. D. Inbamani, General Manager**
- Mr. P. Suriaraj, General Manager**
- Mr. D. Ramesh, General Manager**
- Mr. V. Jayaraman, General Manager**
- Mr. S. Narayanan, General Manager**
- Mr. P.A. Krishnan, Chief Financial Officer**
- Mr. Prakash Chandra Panda,
Company Secretary and Compliance Officer**

Moderator: Ladies and gentlemen, good day and welcome to the Tamilnad Mercantile Bank Limited Q1 FY '24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on a touchtone phone. Please note that this conference is being recorded.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to Mr. S Krishnan, MD and CEO, Tamilnad Mercantile Bank Limited. Thank you and over to you, sir.

S Krishnan: Thank you. Ladies and gentlemen, a warm welcome to all the analysts, investors and stakeholders joining us today. A very good morning. I hope this message finds you all in good health and spirits. I am pleased to present the financial results and performance highlights of Tamilnad Mercantile Bank for the first part of the fiscal 2024.

Before delving into the details, I would like to express my sincere gratitude for all your continuous support and trust in TMB. The first part of fiscal '23-'24 has been encouraging, with the Bank continuing its legacy of consistently delivering positive results since its inception more than 100 years ago. We have been steadfast in our commitment in generating profits and rewarding our shareholders suitably.

Let us get straight into the highlights of the performance of the bank for Q1 of the fiscal 2024. The performance details, the PowerPoint presentation to the investors, have already been uploaded in the website of both the stock exchanges and also the site of our bank. Nevertheless, I will give a brief on the performance of the bank for the ready information of my analyst friends.

The total deposits of the bank grew by 8.73% year-on-year, while the advances grew by 10.26 percentage. Within the advances, if you look into, the RAM segment has grown by about 12.86 percentage. The total overall business grew by 9.4 percentage. The bank's profitability has also increased. The bank registered an increase of about 12% in the net profit, compared with the year-on-year, registering a net profit of INR261 crores. The non-interest income again registered a growth of 20% about, while compared with the previous year's first quarter, registering an amount of INR167 crores during the current year, first quarter. Similarly, the interest income has also increased by 15%, compared to the previous year, reaching an amount of INR 1,156 crores during the first quarter.

When I look into the parameters which directly has interest for the stakeholders, the net worth has increased to INR7,190 crores as on 30th, June 2023 from INR5,427 crores. The book value of the share has gone up to INR 454.03 from INR 380.87. The asset quality, when we look into the asset quality, the NPA has come down to 1.56 percentage, the Gross NPA, from 1.69 a year ago. And the Net NPA has also come down to 0.66 percentage. The Bank's return on assets is 1.85 percentage and the return on Equity stands at 14.80, with a very strong capital adequacy of 26.57 percentage, of which the CET1 alone is about 24.94 percentage.

The Cost to Income ratio is at 44.22%. Now let me also touch upon some of the guidance what we gave to the street at the beginning of the year and almost we are more or less on the same line. As far as the NIM is concerned, we said that we will be 4% and we are 4% in NIM as on 30th of June. The ROA, we gave a band of 1.75% to 2%, we are at 1.85%. ROE, we said 15%-plus, we are close to that at 14.8%. And gross NPA, net NPA, we said below 2% and 1% respectively. We have honored that with 1.56% and 0.66%.

The provision coverage ratio we said -- on the band of 88% to 90%, we are 90%-plus. The cost to income ratio, we said 42% to 44%. Almost we are on the band with 44.22%. The credit cost, we said about the band of 0.5% to 0.75%. The credit cost is at 0.5 percentage. The slippage ratio was said as less than 1% per year. The slippage ratio for the Q1 is 0.27%, which translates to, for a year, almost to 1%.

Friends, I will stop here for the brevity in as much as the PowerPoint presentation in detail. And you, being the analyst, you might have definitely made a good analysis. I will now throw the floor open to all the analysts for an interaction. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Good morning, sir.

S Krishnan: Very good morning, Lakshminarayanan, sir.

Lakshminarayanan: Yes, a couple of questions. Sir, first is, if you look at the yield across retail, agri, MSME and corporate, right? Can you just give me a range of yield across these four different classes?

S Krishnan: Which one you need? Yield in on? Retail on the RAM segment?

Lakshminarayanan: Yes, Yes. Retail, Agri, MSME separately and the corporate.

S Krishnan: Okay. I have noted, sir, we will share with you.

Lakshminarayanan: Okay. The second is that, let's look at the top 20 borrowers, right, how much is top 20 borrowers contributing from the assets base?

S Krishnan: One minute. Mr. Lakshminarayanan, sir, I will give during the course of this.

Lakshminarayanan: Okay. So, and coming to the MSME segment, right, and again, further divide that into the micro, small and the medium, right? In which segment you are seeing growth is lower comparatively, and in which segment you find that there is a building up of stress, if you think?

S Krishnan: I can give the growth in this MSME breakup. Micro, year-on-year, has grown by 1.34 percentage, Q-o-Q it is by 1.42 percentage, small has grown by 27.79 percentage year-on-year and Q-o-Q is almost flat or slightly lower. The medium sector has grown by 6.54 percentage year-on-year and the Q-o-Q is almost flat. Sorry, medium, I am sorry, that is the total of MSME what I said.

The medium has de-grown by about 4.57 percentage year-on-year and about 6 percentage Q-o-Q. Of course, the base is small. The medium base is only INR860 crores as on 30th of June. The overall MSME has grown by about 5.74 percentage year-on-year.

Lakshminarayanan: Got it. So the smallest growth, I mean the growth that is 1.34% you mentioned in terms of micro, right? What is the total gross assets there?

S Krishnan: Asset size is INR9,500 crores.

Lakshminarayanan: Okay. Now, so the growth has come from predominantly in the middle segment, right? And it has been flat, or 1%-plus in the first segment. Now, is it because of the system is not growing? Or is it because of competitive intensity? or is it that you choose not to grow because you think that stresses building-up or what is the reason you would say attribute for these things?

S Krishnan: I will only say that as far as the MSME is concerned, which I have told you earlier also, after this COVID, now the activities are picking-up. We could see the green shoots. When the capacities are increasing, naturally the MSME also will grow. The capacities have started, we are able to see the green shoots on the increase in the capacity at a minimal level for the large corporates. These MSMEs are basically dependent on the large corporates. They will be surrounding the large corporates and hence the demand also is slightly on this one.

And when I talk of about you said or you choose, Yes, we have been keeping in mind asset quality. We are also choosy. Nevertheless, we are with an open mind for taking up. So, with that cautious approach, we could make a decent growth.

Coming to the yield on advances which you asked for the RAM segment, I have the data. The agriculture yield is 8.9%, MSME is 11.12%. The retail is 9.19%.

Lakshminarayanan: And corporate, sir?

S Krishnan: That will be around 9.13% or 9.15%.

Lakshminarayanan: Got it. And the small segment which has actually grown stupendously, 37%, what would you attribute that growth? Is it an impetus from the organization to push growth or the segment itself has been growing?

S Krishnan: Segment is growing. When the segment is growing and also the untapped market where we have the push, where we give the push because the MSME is basically the thrust area for our bank. So keeping that in mind, naturally there will be a push to increase that. Within that MSME, when we look into where it grows, we are able to see good potentials or good growth in the small segment. So that has increased.

Lakshminarayanan: Got it. And how do you anticipate growth for your bank for the coming year? What is the range in terms of advances growth you expect? And especially we are very strong with the MSME segment and for some reason it is actually growing in a slower pace, right? So keeping that in mind, what is the advance growth you expect for the whole year? What band you have budgeted for?

S Krishnan: For the bank as a whole, as I said earlier also the guidance to the street is that we will be growing in the range of 12% to 15%. That is what we have said. And we also try to follow that we promise less and deliver more. That is what we are trying. So, we promise that it will be 12% to 15%. And then coming within that, how much will be the MSME? MSME will be in the range of around 10% to 12%, keeping in mind what we have grown now. While our focus will be on that, wherever opportunities are there, we will be, and we will be having a cautious approach.

Lakshminarayanan: Got it. Sir, one more question related to the gold loans, right? I've seen that across various private banks, regional banks in particular, the gold loan book has almost come to 25% of the

assets. Now, it seems to be, you don't need to deploy capital and it's also gets various benefits in terms of subvention or in terms of becoming part of the priority sector.

Now, given that conceptually, you think there is a risk for the banking system, if any of these things get adjusted by the regulator, how do you think about this? Because everyone has actually gone strong on gold loans and it actually brings a lot of benefits to the bank, right? So your adjusted ROA would be much higher in this thing and this even regulator would know, right? So how do you think about this from a risk mitigation point of view? I mean, I'm not talking only about your bank but in general, what is your view?

Sir, did you hear my question or should I repeat that regarding the gold?

S Krishnan: Sir, can you repeat? You were talking on the Jewel loan.

Lakshminarayanan: Yes, so on the gold loan for all the private sector banks, particularly regional private banks in South, the gold loans have almost reached 25% of the asset book. And the gold loan is a very good product from the bank's point of view because you don't need to deploy capital, that is, you know, it's completely secure. And also it gives subvention benefits for the borrower and it's also agriculture-led.

Now, since it's become such a good product and it's actually grown a lot, do you think there may be any intervention from the regulator? If so, how does the bank would mitigate it? Because you're making higher ROA adjusted and it gives a lot of benefits to the bank, right? So, what is the risk the bank system carries by having such a large gold loan book?

S Krishnan: Okay, now I will answer this not as the MD of TMB, because you are asking about how the regulator will be viewing for the industry, right?

Lakshminarayanan: Yes, and the industry and what is the, I mean, how banks have to think about it from a sensitivity, from a risk mitigation point of view, from a regulatory risk point of view?

S Krishnan: As far as the regulator is concerned, the regulator will be looking into from the aspects as to, it should not be for one, the end use of the funds. I am talking on any credit. It should not be for the purpose like gambling and other things. So it should be for the purpose which is eligible. By and large, the banks, particularly which you said as the private banks, that too in the southern part of the country, they give mostly for the agriculture. So what is required is to ensure the end-use of the funds that it is used for the agriculture if it is given for the agriculture.

But there is also not a restriction that it cannot be given for any other purpose. It can be given for non-agriculture also. The other aspect which the regulator can look into is the regulator has given a SOP that does it have a requirement for the capital. That is, it is an eligible financial collateral under Basel III guidelines.

When it comes to eligible financial collateral, there are methods of valuing the eligible financial collaterals with the applicable haircuts. Now, there comes the question of the LTV. The LTV needs to be maintained. If the LTV is maintained, that can be. There are methodology of calculating the haircuts on the financial collateral, the eligible financial collateral. Gold is one of that collateral. There is a system of mark-to-market, the frequency of mark-to-market. So as a regulator, what he will be looking into is whether these guidelines are scrupulously followed by the regulated entity. If they are not followed by the regulated

entity, then he can say, one, that I will not give you the benefit of the eligible financial collateral for your capital calculation purpose.

Number two, the regulatory guideline if there is, for example, the quality of the jewel pledged becomes spurious, then the secured advance may become unsecured advances. The additional provisioning that will be required for the unsecured advance may have to be put. So, like this, they can bring in the conditions. So, this is what I perceive from the regulator.

But this jewel loan, gold jewel loan is not a new product for the banking industry in India. At least with my experience of more than four decades, I can say that this product is in existence even before I entered the banking industry. Hence, I do not foresee much of the interference from the regulator, except on case-to-case basis where as part of their supervision, they do lot of exercise. So, on case-to-case basis, they may, if they find, they may advise, give the advice to individual banks.

And as far as the TMB is concerned, I can say that we have a robust system of valuation of that gold, marking-to-market almost on daily basis in the system itself. So, we do not foresee any such, whatever I said, what the regulator can look into. So these things we ourselves proactively are looking into, following-up with the LTV almost on a daily basis. So we don't foresee any issues on these things.

Moderator:

Thank you. Sorry to interrupt Mr. Lakshminarayanan. May we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Thank you. Our next question is from the line of Mr. Arvind R from Sundaram Alternates. Please go ahead.

Arvind R: Hi, sir. Thank you so much for the opportunity. I see like NPA ratio had gone up sequentially and I could also see like MSME segment also contributing to in a big way. I mean like in sequence when you look at sequentially. MSME segment hasn't grown up that much but still the NPA has gone up. I'm just trying to get an understanding, like what is going on in this particular segment, compared to which particular segment we think it could grow in the subsequent quarters? That is my first question.

S Krishnan: Mr. Aravind, the latter part of your question is not audible.

Arvind R: Okay, sir. I don't know which part of the question, but I was asking, like NPA has gone up sequentially, especially in MSME segment. That is one of our core segments and we haven't grown that much in the past year also like it's only less than 6 percentage growth. I'm just trying to understand like, even though the growth is slow but our NPA is going up so that is what I'm trying to reconcile, sir. But also on one more thing on the same thing, restructured advance is also coming down, is it also because of that like a restructured book is coming out to the normal that is also contributing to NPA or something?

S Krishnan: I will answer as far as the NPA going up sequentially, yes, if we look into the number per se, it has gone up to 1.56% from 1.39% on a sequential quarter. So, the number speaks that it has gone-up. But one has to look into that what is the level of gross NPA of the bank, 1.56%, is that 1.56% is a reasonable number. In my opinion, 1.56% is not a cause of concern for one quarter from 1.59%.

Having said that, your next question is on the MSME. See, the MSME are generally fragile and that means a lot of hand-holding and other things. If you look into the industry as a whole, what is

the MSME NPA and what is the MSME NPA of TMB, you can see that there is a wide difference. We are still able to maintain a better quality. The restructured book is coming down, one, because we are able to also have a recovery. I will give you the numbers of the restructured book and also the NPAs in that, one minute.

The total restructured book has come down from INR786 crores to INR703 crores as on 30th of June, of which the NPA has come down to INR87.29 crores. So that indicates that it is not only that the restructured book is coming down and then we also maintained the NPA of the restructured. So, if I look into that, the NPA is also coming down.

Having said, yes, this restructured book needs to be closely followed up, monitored, which we are doing. Thus, we are able to maintain to a greater extent. During this quarter, there was a total slippage of INR101 crores in the NPA of which the major shock, the biggest advance is just about INR15 crores. That indicates that yes, the others are smaller. For your information, when I look into the slippage of INR101 crores, the slippage in the MSME constitutes INR60 crores, against INR63 crores in the previous quarter, sequential quarter. So, that indicates that yes, the slippage in the MSME is not allow me to that extent which we need to.

Having said, the bank is fully cognizant of the stress in the industry, more particularly we will be focusing on the MSME which needs extra care. For your information, I can say that the Gross NPA ratio in '22-'23 for the scheduled commercial banks in respect of MSME were at 6.1%.

Arvind R:

Okay, sir. Thank you. I just have one more question if I can ask? The CASA ratio is also declining. Obviously, it is decreasing for

almost all the banks that I have seen till now. But I'm just trying to understand where do you see in terms of cost of deposits shaping-up for the rest of the year? Either in terms of CASA ratio coming down or even rates for the term deposits, still have to kept up to keep the deposits within the bank?

S Krishnan:

Good. See, when across the globe, the regulators started tightening and increasing the rate of interest to contain the inflation, the Indian regulators are also doing that, sucking the liquidity available in the market. This has ultimately translated into drying-up of the surplus funds, which will normally be parked in the CASA. Hence, the CASA across the industry has come down substantially, as rightly observed by you. I can only add some indicative numbers, almost 200 bps on an average the CASA has come down for almost many of the banks. So, I can say across the industry. We cannot be an exception to that. Our CASA has come down against that of 200 bps, has come down by 100 bps.

The supplement to this is the cost of deposit, as I said, when the surplus funds are drying-up, the demand for the costs, the cost increases. If you recollect last year, almost all the banks, I can say that the interest were increased substantially. The TMB waited for a longer time without increasing the cost. Then we also have comparative, competitive rates in the market. We increased our cost somewhere at the end of February, end of the last fiscal, in the month of February, I remember. We came out with a special product with a higher rate of interest. We mobilized the funds. After that, we stopped the product in the month of May. So this has resulted into the increased cost of deposits for all the banks and also to TMB.

Arvind R: Sure sir, I just wanted to understand like, if you think there will be any warrant a requirement of increasing deposit rates or further?

S Krishnan: I don't foresee in the near future for my bank.

Arvind R: Okay, sir. Thank you, so much.

S Krishnan: Thank you.

Moderator: Thank you. Our next question is from the line of Mr. Prabal from Ambit. Please go ahead.

Prabal: Sir, congratulations good business for the quarter.

S Krishnan: Thank you.

Prabal: My first question sir, can you highlight what is your liquidity coverage ratio?

S Krishnan: One minute. Yes, I will give you during the course. Yes.

Prabal: Okay, sir. Second question would be, how many employees are currently on the union model? And a supplement to that could be, if you can talk about the recent hiring that you've done at the senior level?

S Krishnan: See, I have a total employee strength of around 4,500, nearly. Out of that 4,500, you said the union model, I presume that you are referring to the wage structure of the IBA model, am I right?

Prabal: Yes, sir.

S Krishnan: Okay. If that being the case, the employees whom I have recruited in the last two years, which will be very minimal in the number, maybe around 400 or 500 employees will be there, barring them, the rest of around 4,000 are in the IBA model. But

we have our own settlement. It is not exactly the IBA. We are not a secretary to the IBA wage settlement. We have our own settlement with our employees union and the officer's association.

Now having said that, we are also working on, we are having discussions with our employees' representatives for those people also to have a different package. Now, if you were to answer that question, around 4,000 people will be in the IBA model.

Prabal: And at the senior level, have you done any recent hiring from the market at senior head positions?

S Krishnan: Senior, senior head position? No, senior head position, I have hired my General Manager Credit, has been hired less than a year back. My general manager in information technology is hired about a 1.5 year or so. My CFO, a senior person is hired about two years back. So likewise, we have a CTO, who is also hired from the market about two, 2.5 years back. So these are some of the people whom we have hired at the senior level.

Prabal, you asked the LCR. LCR is 209%.

Prabal: 209% is that right?

S Krishnan: 209%.

Prabal: Okay. So when are we planning to utilize this because 200%-plus LCR is quite high for us. So are we planning to utilize this to maybe cushion margins for us?

S Krishnan: Yes, we are planning. If you say that, see, I gave the guidance of the business growth at a moderate level of 12% to 15% and I also said that we want to, I mean, we follow that we commit less

and deliver more like that. So, we will be definitely utilizing this in the period to come with the increase in the advance business. We will be using that.

And before that, Mr. Lakshminarayanan was asking about top 20 borrowers. Mr. Lakshminarayanan can please note that the exposure is around INR3,200 crores, approximately. That is the exposure and outstanding is INR1,700 crores.

Sorry, Mr. Prabal, please go ahead.

Prabal: My next question was on jewel loans within the agriculture book. So if you can just highlight what is the nature of these loans, maybe in terms of ticket size, tenor and the kind of repayment design you have for this?

S Krishnan: The jewel loan can be broadly classified into two categories. That is what mainly we give. One for the agriculture purpose and another is for the non-agriculture purpose. Normally the jewel loan for non-agriculture purpose is for a tenure of about one year and the agriculture goes with the agriculture side. We also have a key cash credit type backed with the jewel loan. The average ticket size of this jewel loan will be around INR1 lakh to INR2 lakhs, INR1 lakh.

Prabal: And my last question. Sir, in your press release, it says that we are opening some loan processing centers. So if you can talk about what kind of loans will be processed via these centers? And also if you can elaborate, what was the process of -- what was the process earlier that bank used to follow?

S Krishnan: Your question is not very audible. We have plans to...

Prabal: My question sir, on the loan processing centers.

S Krishnan: Loan processing centers, okay, fine. Fine. See, I told you last time that we have taken up a business process re-engineering project. As a part of that, on the first phase, we have taken up the MSME front. And this project for the MSME is in the implementation stage. As one of the first two measures, what we did was, we have established MSME hubs at four centers, Chennai, Coimbatore, Madurai and Thoothukudi. These four centers we have established. These MSME hubs are headed by very experienced Executives, who will be able to take a call quickly. These executives in the hubs are well assisted by trained credit analysts. This brings me an advantage of having a good quality processing.

The third, we have also posted relationship managers at all these hubs. These relationship managers have their feet on the street. They are in contact with the potential and also the existing customers to understand their needs, source the application, and then the due diligence is done by a separate team so that I ensure the quality of underwriting. This has been started very recently. I am able to see good traction, encouraging results.

Of course, as far as the number is concerned, it is too early to tell the numbers. We will be watching for another two months or so. Probably, if possible, I would love to meet every one of you even in the mid of the quarter, where I will be able to share with you actually the numbers which has come out of these hubs.

Prabal: Just to clarify, these hubs will be processing not just the loan brought in by relationship managers but also from the branches?

S Krishnan: What I have done is to begin with, I have linked all these branches to the hub. That is in these centers, in these four centers, anything new one will be implemented in a big

organization in a phased manner. So I have chosen these four centers. The branches which are linked -- situated in these centers are linked to these hubs. And there I have also given a cut-off that any advances above INR50 lakhs to begin with will be processed by the hub and below that will be processed, will continue to be processed by the branches themselves.

Over the period of time, with the establishment and the hub stabilizing itself, we will be slowly bringing down the INR50 lakhs cut-off to a lower limit and eventually, over a period of time, all the MSMEs will be brought to the hub. We are also in the process of having digitized loan originating system, which will ensure free and smooth flow of the applications. The leads which are generated through the relationship managers, that it will be like a funnel, where it will be coming in, and the hub will be processing it.

There will be a quick, we have -- yesterday, if I am right, the purchase order for the procurement of the loan originating system, one of the state-of-the-art loan originating system available in the country, we have entered into an agreement with the service provider. Yesterday, we gave the purchase order. Hope that we will be able to finalize, I mean, rollover it as quickly as possible, which will enable my customers to have a good digital experience also.

Prabal: That's very nice to hear, sir. Thank you.

Moderator: Thank you. Our next question is from the line of Sonal Minhas from Prescientcap Investment Advisors LLP. Please go ahead.

Sonal Minhas: Hi, sir. This is Sonal.

S Krishnan: Good morning Mr. Sonal. How are you?

Sonal Minhas: All well sir. How are you? Hope all is fine.

S Krishnan: Fine, thank you. Good.

Sonal Minhas: Sir, I had a bookkeeping question. Just wanted to understand, your size of your gold loan portfolio? Is LTV and its sum as these are roundabout figures you could disclose just to understand how large the gold portfolio is?

S Krishnan: My size of gold loan portfolio is around INR10,200 crores to INR10,500 crores, approximately, right? And it consist of around 9 lakhs accounts, approximately. The LTV ratio is maintained at 85%, 15% is the margin. So LTV is maintained at 85% as I was responding to earlier to Mr. Lakshminarayanan that the bank has a good system of marking to market almost on a daily basis across all the branches.

Sonal Minhas: Got it, sir. I was just asking what would be the tonnage of the gold loan portfolio, sir?

S Krishnan: I don't have right now. It is across the all. So I don't have the tonnage of the gold.

Sonal Minhas: No. Sir, I had a follow-on question on the MSME sector. Because I think in the last call we were in, I did ask you about the quality of the proposals that you are getting. And I think you did mention that the quality both in Tamil Nadu, Kerala, Karnataka region seems to be healthy. But right now from what I am hearing from the callers, the discussion with the callers earlier, seems like the MSME portfolio, you are a little cautious on reviewing the portfolios that are coming to you. So just wanted to understand, is there a change, what has happened? Maybe I'm getting it wrong, just trying to understand the quality of the MSME proposals that you're getting across the three, four states you're dominated?

S Krishnan: No, I think you have probably more clarity on what are you said. I didn't said that there is a concern or anything like that. Rather, I was telling that out of the total slippage, if I look into for Q1, which amounted to around INR101 crores, my MSME normally, yes, MSME was fragile and I have large exposure. So, there definitely the slippage portion also will be little higher.

But when I compare this slippage with the previous quarter sequentially, sequentially in the last quarter that is Q4 of the last year, the slippage in the MSME was INR63 crores and during the Q1, the slippage is INR60 crores, which indicates that by and large, we are maintaining the same quality rather marginally it has improved because the slippage has come down from INR63 crores to INR60 crores. So, I still stand back to the quality what we get. Of course, when I say the quality what we get, we have to do the due diligence. As a lender we are cautious, we will be doing the due diligence and we will be taking a good quality book.

Sonal Minhas: Understand. And with more centralization technology and the consulting fees you're talking about the quality of diligence, the comparison of proposals, even access to cash flows of these companies to understand the quality of the data that has been submitted. Will that all improve over time? Just this is more like thinking to understand how is the MSME book going to be in the next one or two years?

S Krishnan: In the next one year or two years, I expect a good improvement in the MSME book of my bank. The stress ratio coming down reasonably well in the next one or two years, as you rightly observed with the centralization, putting in the ruling chain, the quality of the assessment, the underwriting, the monitoring. Today, a lot of tools are available. We will be able to ring fence

the cash flows. With all those things, I am sure that the quality will improve reasonably well in the next one to two years.

Sonal Minhas: Understand, sir. Thanks a lot for answering my questions, sir. Have a nice day. Thank you

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Namaskar sir and thank you for this opportunity. Sir, firstly if you could give us some general details of the increase in the treasury income for this quarter and I think so this line item supported our numbers for the quarter? And also, what explains the reduction in the profit for the retail banking segment? These two segments.

S Krishnan: As far as treasury income is concerned, my interest income has gone up. With the investments going up and also the rate of interest firming up. On the year-on-year it has gone up. So, that is one. And my profit on sale of investments is almost flat, still the market is yet to get up to get me a profit. So, that is the main reason for this.

And last year, you know the market was bad, which necessitated a mark-to-market provisioning, which was additional burden last Q1, which is not there this time. Hope that now it has turned, there is no mark-to-market. In the coming period of this fiscal, maybe by Q3 or Q4, I expect that the market will turn positive, will be able to get profits on the sale.

Saket Kapoor: No, sir. When we are comparing your treasury income on a year-on-year basis, it is flat. But on a Q-on-Q basis, it has moved up significantly. So just to understand the nature of the same, what factors will contribute to it and what should be its trajectory, are you in a position to comment on the same? And

on the retail banking segment, we have seen a decline Q-on-Q. If you could explain the same and Sir. Also, if you could give us some trajectory of what the NIMs for the year would likely to be, what should we look in terms of the ROA, and what should be our provision as per the book?

S Krishnan: First, probably, your are picking-up from the segment reporting on their questions, or on that, am I right?

Saket Kapoor: Yes. From the segmental report, sir.

S Krishnan: Okay. I will request my CFO to be in touch with you and he will give the necessary details on the breakup of this sequential quarter comparison, both on the treasury and also the retail banking. Coming to what will be the guidance on the return on assets, I said that my return on assets, the guidance given is in the range of 1.75% to 2%, which we will be maintaining. The NIM, as far as the NIM is concerned, it will be 4%-plus.

Saket Kapoor: I'll join the queue again. I request the moderator to just send me back two-three persons and I'll just join in two minutes.

S Krishnan: Yes, most welcome Mr. Saket.

Moderator: Thank you, sir. Our next question is from the line of Jai Mundhra from ICICI Securities. Please go ahead.

Jai Mundhra: Hi sir, good morning and thanks for the opportunity.

S Krishnan: Very good morning Mr. Jai Mundhra. How are you?

Jai Mundhra: I am good sir. How are you?

S Krishnan: Fine, fine.

Jai Mundhra: Great, sir. My first question is on margins, right? So you know, not this quarter, of course, they have declined, but even from a

Y-o-Y perspective or the entire cycle perspective, we have seen margins which have not improved. Actually, they have deteriorated. If you look at yields, then they have been more or less range bound, like in the slide that you have given that the yields on Y-o-Y basis, they were 9.48% and then they have improved to 9.82%.

But similar has been the pressure on cost of deposits and cost of funds. So margins have been more or less stagnated, whereas all other banks in the last three to four quarters have seen significant rise in the net interest margin. So what is the reason for limited margin expansion? At the same time, our growth has also been more or less normalized growth. So, when we are cautious on growth, the margins have been actually on a downhill. So, I wanted to understand what is the reason.

S Krishnan:

Mr. Mundhra, if you look into today across the banking industry itself, there is a pressure on the cost of deposits. Deposit costs have substantially gone up for every bank. Accordingly, for us also it has gone up. So it is a temporary phenomenon. I expect that this will ease out in the next quarter or so, it will be coming down. As I was explaining earlier to the earlier speaker, last year, we postponed increasing the deposit rate and we increased it only at the fag end of the last fiscal, that is in the month of February.

Now, that full impact has come on the Q1. That is why it looks that the cost has gone up. Normally in banks, particularly in TMB, I can say that the Q1 will be a dull, lull on this one for various reasons. One such will be on the people movement. There will be large-scale transfers, replacement, other things. So, normally, there will be a lull period.

Nevertheless, if you look into the growth, it has been moderate. I will say that around 10%, 9% also, the advance growth is around 10.26 percentage with that it has. Now my NIM is 4%, I feel that yes it will -- it's likely to go up in the coming quarters that is what I expect. So, keeping that in mind only, we have given a guidance of 4%-plus and you will definitely agree with me that a NIM of 4% is reasonably a good NIM, when we compare the industry in the country barring few tail ends.

Jai Mundhra: No doubt, sir the NIM at 4% is very healthy. What I was trying to understand is that it has not improved to the extent of what other banks have seen improvement. In fact, it has declined on Y-o-Y basis in last two, three quarters it has been declining on a sequential basis. Are you sensing some, let us say, competition, more competition when you were to increase your yield on advances or you think the competitive intensity is same as let's say last 12 months has not changed?

S. Krishnan: No, there is increased competition which cannot be refuted by anyone. So, that is also one of the reasons that when that comes, then we have to and we take a very, very calculated steps. We have a good ALCO which deliberates on that. And I hope that this 4% is likely to go up in the coming period.

Jai Mundhra: And, sir, you said that from now onwards the margin should be more or less stabilized here at 4% near about. Is that the right understanding?

S. Krishnan: Yes, that is the right understanding. Margin is, I don't expect to go down rather it may be marginally going up from now onwards. It should move northward.

Jai Mundhra: So, why would that be? I mean, is that the cost of deposits have repriced almost to the extent that cost of deposits should not rise or how?

S. Krishnan: No, cost of repricing of the customer, I mean, the deposits has taken place as far as my bank is concerned almost. And in the near future, of course, it's the ALCO's call. I don't expect that the rate will be increasing in the deposit front. So I have the ALCO had their planning and whatever we were to mobilize, we have mobilized. We discontinued that product which was having the higher rate of interest. So, with all these things in back, I feel that going forward, my margin will be improving steadily.

Jai Mundhra: And, sir, if you have the breakup of your loan book by MCLR, EBLR and working capital and term loan, I mean, these two cuts, that a, one by benchmark, that is to how much is MCLR, how much is EBLR, T-bills etcetera? And the second would be how much is working capital loan and how much is term loan?

S. Krishnan: See, as far as the MCLR and EBLR is concerned, it is almost 50-50 or it may be something like 48-52. There is slight difference only. So yes, so not much. So, we can say 50-50 will be the MCLR and EBLR. As far as the working capital and term loan is concerned, I will request our people to give you the exact numbers. Normally, there is a lag of about three months in effecting the -- three months to 6 months I can say in effecting the entries in the policy rates.

So, I hope that with all those things, what I said, that I also expect that the regulator will not be increasing the rates further. The pass may be continuing; this is what is the expectation. So, with those things I still stand that my margin is expected to improve gradually from now onwards.

Jai Mundhra: And sir, is it safe to assume that MCLR loans will still be repricing even going ahead, so you will still have some benefit coming from MCLR repricing?

S. Krishnan: That ALCO will take a call about repricing the MCLR based on the cost of funds and we can infer what it will be.

Jai Mundhra: Okay. Sure. And sir last month if I remember, there was an IT raid which was pertaining to our bank, while nothing which is financially important or it has not impacted the financials, but it says that there was not too much of an internal control when it comes to said procedure etcetera. So, what is your comment, have we changed anything, have we analyzed that what were the reasons for the alleged lapses in our bank?

S. Krishnan: First, I want to give you a clarification that it is not a raid. There is a difference between the raid and on the spot verification. So, I want to give you a clarification, there was no raid in the Tamil Nadu Mercantile Bank. And this has nothing to do with any of the financial statements of the bank which the bank has submitted for income tax purposes. These are related to specified transactions which the different entities need to report to the IT department at periodical intervals. Now you might have gone through the press release of the IT department after they did the on-the-spot verification.

On 30th of June, if I am right, it came with a press release, where if you look into the last sentence, I will read out. In order to explain the legal obligations and the processes as well as to address difficulties faced by the reporting entities, outreach programs are being regularly organized by the department across the country. This is another initiative of the department to facilitate ease of compliance. This is what the IT department press release says.

Having said, yes, what it is, the various reports which the bank had submitted, the department had found certain errors in the report submitted. I have to now clarify that whatever deficiencies or defects identified by the department, all those have been rectified and all the returns which were to be submitted to their department have since been submitted. So, I expect that the matter is likely to be closed as early as possible. These defects, one of the reasons could be certain technical glitches because of which these type of errors have occurred. So, this is what has happened. I hope that things are clear to everyone.

Jai Mundhra: Right, sir. And last question, sir, is we have a loan book of around INR37,000 crores, INR38,000 crores and it is one of the lowest and still your loan growth aspirations are 12% to 15% only. We are one of the smaller base having a good ROA, have abundant capital. So, what is that stopping you from growing industry itself is growing at 15%, 16%. We are aspiring to be slightly lower than industry. So, wanted to understand what is stopping you in growing at a faster pace?

S. Krishnan: It's a very good question. My aspiration is also like that. But I also said that we follow the principles of promise less and deliver more. I hope that we'll be able to be in line with the industry pace.

And the second is, as far as we are concerned, we are more particular on the bottom line, a healthy book rather than a big top line. So, we do lot of due-diligence and then we steadily grow the business that could be one of the reasons. But nevertheless, as I was explaining, that we also have now taken up business process re-engineering, based on which we have now created the hubs, we have put in place the relationship managers, whose feet are on the streets. So, I hope that in the

period to come, the business will be growing reasonably good and will be at par with the industry average.

Jai Mundhra: Right sir. Thank you sir and all the very best.

S. Krishnan: Thank you very much.

Moderator: Thank you. Our next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Thanks again. Sir, to the earlier participant who mentioned that the growth aspiration is...

Moderator: Mr. Lakshminarayanan sorry to interrupt. May we request you to use the handset, please? Your audio is not clear.

Lakshminarayanan: Yes. So, it is -- earlier you mentioned that your growth aspiration is 10% to 15%. My question is that when you actually set your targets, is your internal targets different from this number, number one? Second is, what do you consider as the set when you actually benchmark? Is it the Indian banking system or is it the Tamil Nadu credit growth of Scheduled Banks advances or how do you think about it? How do you do bottom-up, both internally as well as externally that's my first question?

Moderator: Mr. Lakshminarayanan I'm sorry to interrupt. Again, like we are not able to hear you at all.

Lakshminarayanan: Yes sir. So, the question is that you had guided between 12% to 15% growth. And you also mentioned that you like to maintain at least the industry growth. When you -- there are two questions or I would say just an extension of that. It is that when you do this target setting internally, do you have a different target and if so, how do you benchmark it? Do you benchmark with Tamil Nadu credit growth -- Tamil Nadu because your business is 80%

Tamil Nadu. Is it TN Schedule Bank credit advances growth and you want to grow ahead of it or is it the Indian banking system or it's the private banks, regional private banks? How do you say that you want to grow ahead of the system? What is your baseline?

S. Krishnan: See, when we talk of the Scheduled Commercial Banks, even if I take a TN, Scheduled Commercial banks have got the credit portfolio under different segments. It has the RAM and also the corporate, if I have to say, in a broader sense.

As far as the Tamilnad Mercantile Bank is concerned, we will be trying -- our aspiration will be that we are at par -- or ahead in the case of the RAM segment what is the Tamil Nadu Scheduled Commercial Bank and what is ours. So, that is what we will be because the corporate will be very, very selective and choosy.

Lakshminarayanan: Got it. So your target setting and the way in which we as investors we should look at is are you growing ahead in terms of the RAM segment within Tamil Nadu Scheduled Commercial Banks?

S. Krishnan: As far as the June is concerned, we are comparing with the Tamil Nadu Scheduled Commercial Banks this one. And as I said that first quarter normally will be a lull for us. But nevertheless, we will be able to catch up and that is what this one shows to us, the study. Our growth is around 13% in the RAM segment approximately. I hope that we are at the same pace. We will be accelerating the growth in the coming quarter.

As I was telling, the drivers are like having MSME hubs exclusively at select centres, which I will be increasing going forward in Tamil Nadu itself. We have plans already in the final

stage of rolling out such things in the very, very near future. With those things, there will be an accelerated growth, which we expect in the RAM segment, particularly when I have to compare with the Tamil Nadu Scheduled Commercial Bank's RAM segment growth.

Lakshminarayanan: Got it sir, and one last question, this, you mentioned the top 20 borrowers it's around 3,200 right, and I assume that all these 20 borrowers come from the segment which is others right which is outside the RAM, am I correct?

S. Krishnan: Yes, Yes, Yes.

Lakshminarayanan: Okay, thank you sir.

S. Krishnan: Welcome sir.

Moderator: Thank you. Our next question is from the line of Arvind R from Sundaram Alternates. Please go ahead.

Arvind R: Yes, thank you sir. Just one small question like so the corporate book has come down and then wholesale deposit also come down sequentially, I'm talking about. Is there any correlation in that, what is that?

S. Krishnan: There is no correlation between the two. One of the corporate AAA, when as and when they require, they will be taking up from us and we are having a good association with that one. So, accordingly, it was taken. And when they have the surplus, they close it. So, it has no correlation between the reduction in the corporate and the reduction in the wholesale deposit. As a measure, we try always that we will be bringing down the wholesale, either on the liability side or on the asset side to eliminate the concentration risk. So, towards that, the wholesale deposits we have brought down.

One, the retail, as I was explaining that yes in the retail we increase the rate of interest. We could garner good deposits, good amount. Now I have a good retail, increased retail customer clientele. Now that being the case with the CD ratio, so we are not for increasing the wholesale deposit. That wholesale deposit as and when required we can always get. That is how it has come down, it has no correlation.

Arvind R:

And just one follow up question on the IT thing, like you said, like things are addressed to avoid certain technical glitches. I'm just trying to get a more understanding of what kind of processes are being improved there to avoid those issues in the future?

S. Krishnan:

As far as the processes are concerned that internally I have put in place a system that all these are basically taken data extraction from the various systems which the bank has, the primarily the core banking. Now I'm also arranging for getting the script auditors for that purpose and I'm making my concurrent auditors to verify this. So, that these type of errors what we've seen is not reflected, is not occurred in future when we submit.

I can also give some examples like the defect data, what has been given is that the PAN is mandatory for these reports of the income tax. But PAN is not mandatory for account to be opened. So, there is again, we are taking up the income tax department also on this. So, this one such thing. So, normally there will be a defector. When I submit because my customers, I cannot say that you should have the PAN number or you should have the mobile number. So, these are some of the things then that comes as a defective one. That is what has happened. These are some of the examples, not exhaustive list.

So, what we have done is that the extractions one, the script and other things I am putting in place for thorough audit, freezing it and like that and also before submitting to have a verification by the independent person so that we submit a good data.

Arvind R: Okay. Thank you. Thanks so much.

S. Krishnan: Thank you. Our next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Thank you sir for the second time opportunity. Sir, as the earlier speaker did mention, sir if we take the banking landscape, we are among small banks only and sir we have been listed now for over a year or almost closer to a year now and you have been speaking about the value creation ideas, but it is appearing from the quarterly numbers also that that there are issues with growth. So, how are you going to address the thing because if you look at the interest expended line item for this quarter, that has grown up significantly.

So, I think they have been repricing on the liability franchise. So, going ahead sir, and also that you have very correctly guided also us in the last two quarters that the NIMS would be now trending lower to 4% from 4.3% or 4.35% which it was I think so for the September and the December quarter.

So, in terms of these sectors ahead, what should investors investing – investor should at least expect from you. I thank the board for the dividend payout of INR10 per share although the payout is closer to 11%-12% only, but still, it's a good gesture. So, when you speak of value creation for your investors, for your stakeholders, what are the levers to which because growth guidance from you are not matching the industry and also I think

so the space where we are operating, we have constraints with our dominant presence also in certain part only. So, these are my -- these are my some observation sir and for the CFO sir to connect with me what the procedure, how should I know when and where to continue.

S. Krishnan:

Now let me give some flavor of whatever you have asked as far as for the investors are concerned. Now, if you look into a NIM, what we guided was 4 plus. As you also said, yes, we are. Just now I told that I expect that from now onwards, we expect northerly movement of the margins that is the NIM is expected to because whatever re-pricing was to happen on the liability front which you have observed that during Q1, the interest expenditure has gone up. So, it is expected to stabilize and I do not expect further increase in that.

Going forward, we will be able to have a little increase in the yield on advances and spread is likely to improve that is one. And the second is, you were also asking about the business growth. I was also explaining that, yes, 12% to 15%, we are given a moderate commitment. We said that we have the policy of promising less and delivering more. That is what we want to follow. We are taking steps towards that goal.

If you look into the drivers which will enable me to improve the business, as you observed that we have been operating in area, not only the geography, that we are predominantly focusing on the small segment unlike others who may have big ticket loans which will suddenly improve or quickly improve the top line. I was also telling that even the small loans, I am very cautious because we are focusing on the bottom line. We want to maintain the asset quality. That is why and we want to distribute the concentration risk.

Keeping all these things, still what is the driver that I am going to have? I have explained that we have taken up a project of business process re-engineering. We have established the MSME hubs to begin with at four centers. We have put in place the relationship managers. All these have started just now in Q1 or end of Q1. So this, I expect that will give me results in the rest of the year which will enable me to show the better results than which has been now. So, I hope that the investors can have the confidence on the margin. We have continuously demonstrated with a NIM of 4-plus and everyone will agree that it is reasonably a good NIM of 4 and the NPA ratio continues to be -- net NPA continues to be less than 1% with a provision coverage ratio of 90 plus.

In addition, for the investors' confidence, let me tell that the bank has earmarked around INR300 crores as a special provision for any contingencies on account of COVID. So, these are some of the cushion that are available for the bank, which should enhance the confidence of the investors.

Saket Kapoor: And sir, regarding connecting with the CFO part, please let me know the procedure. And also sir, I think so off late, we have also observed that the call, the con call have been skipped by the management and you have gone for a physical meet with investors. So, that gives us -- that is not giving an edge to your investor to participate. So, continue with the telephonic conversation as has been the practice, sir?

S. Krishnan: We will do that. Telephonically, we will also have wherever possible we can also have through a video conferencing like a Zoom or whatever call we can have. As far as the CFO contact is concerned, you can note the mail ID, CFO@tmbank.in.

- Saket Kapoor:** So, to conclude is that going ahead our yields on advances are going to improve than what we have reported for Q1 and the NIMs will also trend in the trajectory of 4%-plus for the year. And that is what you are guiding us for the year as a whole. So, on an EPS of INR68 that we posted for FY '23, what would be the likely trajectory on the growth we can expect sir, taking into account the current parameters and the current environment?
- S. Krishnan:** So, in which growth your voice is not audible? The overall business growth I have given.
- Saket Kapoor:** EPS growth sir.
- S. Krishnan:** EPS growth...
- Saket Kapoor:** We have posted INR68 rupees for FY '23. So taking into account...
- S. Krishnan:** Give you the guidance. Okay. I will ask my CFO to give on EPS. We will be in touch.
- Saket Kapoor:** Okay. Fine, sir. Thank you.
- Moderator:** Thank you. That was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. S. Krishnan for closing comments.
- S. Krishnan:** Thank you very much. In fact, it was a great pleasure to have interaction with the cross-section of my analysts. I always love to have such a interactions. Once again, a big thanks to everyone of you for taking the time in the morning hours during the trading time to interact with us. I hope to have such interactions at much more frequent intervals than this one. And wherever possible, we will also have a physical meeting, we will also have the

digital meeting. Thank you all once again and wish you a very happy and great day. Thank you.

Moderator: Thank you. Thank you. On behalf of Tamilnad Mercantile Bank Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.