



**Tamilnad Mercantile Bank Limited
Q2 & H1 - FY 2022-23 Earnings Conference Call**

October 27, 2022

Management : **Mr. S. Krishnan, Managing Director & CEO**
Mr. D. Inbamani, General Manager
Mr. P. Suriaraj, 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 Tamilnad Mercantile Bank Limited Q2 and HY1 FY23 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 “*” and then “0” on your touchtone phone. In interest of time and to give an opportunity to all to ask, we request each participant to ask maximum of two questions. Should you have any additional questions, we request you to write to us on secretarial@tmbank.in Please note that this conference is being recorded. I now handover the conference over the Mr. S Krishnan. Managing Director and CEO Tamilnad Mercantile Bank Limited. Thank you and over to you Sir.

S Krishnan:

Thank you a very good evening to everyone. My dear Analyst who are on the concall and outside my sincere thanks for sparing the time. The bank has announced its first half year results of the current fiscal. Today we had a board meeting in the morning and it was announced. You know that this is the first time after the Bank got its shares listed in the Stock Exchange, the Bank is coming out with its results and the results are encouraging. The Bank continues to be one of the Bank which has been posting good results, I'll just give you a brief of the bank, the bank is more than 100 years old private sector bank and this is one bank which has been continuously, consistently making profits, right from the inception and also paying the dividends. The performance during the first half year is encouraging. I will give some brief of that. The presentations on the performance has been uploaded in the website of our Bank, which I'm sure that, by now my friends should have gone through and I'll be more than happy to interact with them. To give you a brief, the bank's operating profit has increased by about 11%. I am talking of the half yearly performance year on year. Why I'm talking on the half yearly performances? As you know, that the bank's shares were got listed only in the month of September. Before that, it was unlisted and LODR was not applicable, hence the quarterly result was not published earlier. Now we thought that having got it listed so first half year we will do and going forward there will be every quarter which I'll be interacting with you at least once, if not more. I'll be more than happy to interact with you much more frequently. The operating profit of the bank has increased by about 11% and reached to Rs.764 crore and the

net profit has zoomed by about 27% to reach at the position of 497 crore. When I talk on this, I should also tell about the net interest margin. The net interest margin has reached the height of 4.47% is one of the best in the industry so far. Based on the information I have with me is probably the highest. If there's some other bank which has more, I'll be more than happy to get to know from you and update myself. As far as the asset quality is concerned, the gross NPA is 1.70% and the net NPA is 0.86%, which has come down from 3.31% and 1.82% a year back. The return on assets and the return on equity, which are very important for any investor, continues to be good. The return on assets is at 1.93% and the return on equity is at 16.84% and this return on equity is after factoring the additional capital, which the bank has taken in the recent past. The cost income ratio has also come down to 42.02%. The provision coverage ratio is at 88.58%. The capital adequacy continues to be very, very comfortable at 24.58%, the Tier 2 constitutes less than 2% and all others are counter-equity, i.e. Tier 1 capital. So this in a nutshell is the performance. For the paucity of time and as I'm sure that my friends would have already gone through the presentations, which is available on the website of the bank. I will stop here and will like to have a interaction with you going forward. Now hand over to the moderator.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead, sir.

Jehan Bhadha: My first question is on the yields. If we see the yields have declined compared to the June quarter and in case of the industry, most of other banks have witnessed an increase in the yields. And on the other hand, our cost of deposits has gone up so that that has impacted the NIM. So like, why has this happened and what is the future outlook?

S Krishnan: Probably you are comparing the QOQ.

Jehan Bhadha: So first half number with the quarter one number so we can get an idea that quarter two yields have come down.

S Krishnan: Let me tell you basically when the reference rate was revised by the Reserve Bank of India, we have not passed on consciously to the customers. That is

one reason why my yield on advances has marginally come down. Second is that, why we had not passed on? You know that my loan book, I'm serving mostly of the MSME, Agriculture and Retail, so we consciously took the decision. However, my ALCO will be meeting very shortly to take a call on the revision of rate of interest. That is one reason why it has not, and the cost of deposit has marginally gone up, not much. So going forward, if you look into the overall NIM, the bank continues to be at 4.47%, which is one of the highest. So what will happen is when I have a very high base. Even in March, I had more than four, so having a very high base will be difficult to maintain. There will be a small declining, so when it declines, it looks like there's decline. Why it has declined also needs to be seen, so there could be seen that my base was very high sustaining these as 4.47%. It's also not possible. I will be having something around 4 plus.

Jehan Bhadha: OK, right. And the second question is on the SMA number. SMA01-02 total comes to almost 12.5% of the total loans. So how should we read this number? Is it the normal scenario or before COVID what was this percentage number and going forward, how will this shape up?

S Krishnan: I will request you to read along with the slippages. Looking into the SMA 01 and 02, yes definitely it is 12.5% which appears to be little bit higher. But again, drilling down SMA 01 02, if you look into SMA 02 alone, it is only 985 crore. And I don't stop there. I also request you to look into my slippages how it is happening. See slippages are well contained which will be evident from the credit cost what I have, which is 0.27%, which is again one of the best in the industry I should say. Now we are able to, as I said that basically our bank, we are focusing on the RAM segment. Due to the pandemic, when the entire globe was affected, the MSME and the Retail was more affected because, they are the persons who will be finding difficult unlike corporate, who will have deep pockets, will be able to come back quickly, these people, but nevertheless, though, there is a struck it has not presented into the default. We will be able to manage this and going forward it will further come down.

Jehan Bhadha: OK, so what will be the like normal level will be before COVID, what must this number be? Will it come to single digit?

- S Krishnan:** I will share that with you, Adfactor will coordinate with you.
- Moderator:** Thank you. The next question is from the line of Sagar from Alchemy Ventures. Please go ahead.
- Sagar:** Couple of questions, you just got the RBI approval post the IPO to open more new branches. So what are your plans there?
- S Krishnan:** See, we are working on that. The management is working on that about the opening of the branches. The RBI lifted its restrictions on 21st of October, just before the Diwali and we are working on the expansion in places where I have a good potential and also that I will be able to have a small break even time, so that I will be able to have a good center. I will be taking a paper to the board very shortly, with the details of the places and the number of branches and the period by which I'll be able to expand. Once the board deliberates and approves on that, I'll be more than happy to share with you.
- Sagar:** And so some of these new branches. What percentage will be in Tamil Nadu and what percentage will be in other southern states? And what percentage will be outside of South of India?
- S Krishnan:** That's what I said that we are working on that. We are with open mind. That for me, it is India one. OK, so I am looking at India as a whole as to what are all the potential centers which are available? Within those potential centers which is more suitable for me where I will be having a lesser turnaround time, where I will be have a quick-fix breakeven so, all those things I am working and I will be taking to the board very shortly.
- Sagar:** Sir, just then would you have a rough number in mind in terms of what increase in OpEx will it entail in FY24 if not in 23?
- S Krishnan:** No, We will be evening out without affecting much of the OpEx. That is the reason that I said that we are also looking to the alternates like what I have the digital banking unit where I can have that OpEx like model. So all these alternates are being worked out and we'll be going with a plan, where I will not be straining my OpEx to a greater extent, in any particular year.

Sagar: My one more question is on the deposit front. We are seeing healthy credit offtake. Do you see pressure on the deposits and do you think we will need to increase deposit rates significantly, or at least commensurately, to match up with the credit demand?

S Krishnan: There will be a requirement, as the rates are hardening up, definitely the deposits cannot be an exception to that. There will be a need to revise. My AL-CO will be meeting very shortly, which will be taking a call on the rate of interest on both the deposits and the lending rates.

Moderator: Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam: I just want to understand about the USP of the bank and what are our differentiators, which is leading to such better ratios. And market seems to still give low elevation compared to other banks.

S Krishnan: My USP is actually this bank is known for its customer service. The bank is known for particularly assisting the MSME, the trader community. The bank very well understands their nuances of these MSME. The bank very well understands the pains of the MSME, the bank very well understands the strengths of the MSME, so also those customers understand the bank. It is the bank where I had been seeing now, at least for the past 40 years or so when I entered this banking arena. I have been seeing that this is the bank where the service is the best. So these are basically the principles, where the customer come to the bank and get the service, irrespective of the time, that continues even today and that will continue in the days to come also. So this is the USP of the bank and we concentrate only on the RAM segment. When I concentrate on the RAM segment, my risk is diversified. There is no concentration risk, again I also mostly go for a secured lending than the unsecured lending. So these things have helped the bank to have one of the best in the industry or in all the ratios.

Vivek Gautam: OK, Sir, and what about some legacy issues over and lying on the Bank of the couple between Promoter Group and Forums?

S Krishnan: So it cannot be proper.

Vivek Gautam: OK, but at least those with the giving him the of the new branches licenses by RBI, the future is looking much better than the past end.

S Krishnan: Definitely the future is looking very bright and whatever be the issues, it has not affected the performance of the bank at any point in time.

Vivek Gautam: OK, and basically the IPO played as a part of a critical role in RBI coming out with more of branches permitted to open and so far we are mostly Tamil Nadu oriented Bank now we'll be in all over India and reducing the geographical concentration risk.

S Krishnan: Yes, we will be looking into that.

Moderator: Thank you. The next question is from the line of Sandeep Joshi from Unifi Capital. Please go ahead.

Sandeep Joshi: I had a question on margin so you mentioned that the current level of margin which is around 4.47%. It's not sustainable and you guided that you will be somewhere around 4%. So my question is that despite we have not taken a decision to pass on the rate hike and despite this we are actually guiding for a margin of around 4 odd percentage. I mean, so are we building in so much of aggressive increase in rate of deposit so that our margins will come down to 4% compared to current levels.

S Krishnan: No, I think it was not properly understood or I have not properly told whatever it is. What I was telling is that maintaining, sustaining a NIM of 4.47 forever is difficult because the benchmark is very high. Now I also said that the rate hike what was passed on, was not full. Rate hike, which was done by the Regulator was not fully passed on to my customers so far, because there was a question that why the Net Interest Income has come down or why the margin has marginally come down. Like that QOQ, so that was the answer for that. Having said, I also said that the ALCO of the bank will be meeting very shortly to take a call on the lending rate and also the deposit rate. Now going forward as a guidance. What I said was that my NIM will be 4 plus. Why I said 4 plus is that 4.47 is a higher level. That definitely sustaining will be very, very difficult. Does not mean that I am going to Jack up the rate of interest on the deposits very strictly and thereby margin will come down not

like that. It is not like that as the guidance. I said it will be 4+ while the bank will be making all the endeavors to see that we are able to have a good NIM.

Sandeep Joshi: OK, understood, so my second question is on this is on the SMA book, see our SMA book is broadly stable if I compare this to March 22, this is broadly stable, so since the festival season has actually kicked in from October, are you seeing any demand on your SMA book?

S Krishnan: See that's what I said, my SME book though by number wise. but as you rightly observed, it is more or less ranging in the same level and I'm not having the slippages also to a greater extent. I am able to contain the slippages indicating that I am able to recover the critical amounts. Thereby I am able to maintain the asset quality. Why this SMA is continuing to be our but also explained that basically I explained I lend mostly to a RAM segment. There they were feeling the pinch more than the corporates who have a deep pocket. That that is what I said. So there is a strain, but does not mean that there is a default. I'm able to have a better monitoring mechanism. I'm able to contain the slippages, so going forward as the activity improves as the industry like Production and performance improves, I expect that this position will also come down in the days to come.

Sandeep Joshi: Thanks for the clarification on the SMA book, but actually I was referring to the extent or the MSME book, so this MSME book on the loan side. This book has broadly remained stable if we compared this to financial year 22. So my question is that since the festive season actually kicked in from the month of October, have you seen any growth, any demand on the MSME book?

S Krishnan: MSME growth, I don't think that the MSME has, one minute, let me see. Year back, MSME was around 12,326 and now it is 12,700. There is an increase of around 400 crores so there is demand, but it is picking up. I expect that the activities will pick up further in the days to come with the festivals and also I am seeing a good monsoon which in turn while it will definitely have a direct benefit to the Agricultural sector, the MSME sector will also once the activity economy picks up there, MSME also will improve. I expect a good potential for that uptick for that.

Sandeep Joshi: OK so my next question is on the loan growth? What kind of loan growth you are targeting for financial year 23 and 24 and what segments will.

S Krishnan: I expect my loan book to be around 37,500 crore by March 23.

Sandeep Joshi: OK, and any guidance for FY24 if you have in mind.

S Krishnan: Maybe I maybe growing by another about 12%.

Moderator: Thank you. The next question is from the line of Ashok Ajmera from Ajcon Global Services, please go ahead.

Ashok Ajmera: Sir. Most of the questions have already been answered. My only submission and observation is that since our base is comparatively low. And you are a very, very outstanding and performing person and our asset quality is also very good and under control. The NPA, both the gross and net NPA. So just a question that why we are restricting to a growth target of only 12 percent, 13% or 14%. Like you just now said. You said, in 23-24 also it will be around 12%, whereas some other smaller banks, they may not be so small compared to us, but they are having the credit growth of 24%-25% because of the low base. Yes, so any concern that.

S Krishnan: To answer your question, you know that I say less and do more right. Definitely we will be performing more than that. But as a guidance, I had said, because gradual growth is always better. The bank is consistently focusing on the bottom line, which will be my thrust also, my focus also to see that I'm able to have a very strong bottom line having said the top line is equally important, so we will be growing on that, though I said 12% you have read what is in my mind. Definitely we will be doing more than that. But as a guidance, I said 12%.

Ashok Ajmera: Yes, definitely Sir, your ROE is more than 2% either it's rare actually. You are, I think, 2.04% on annualized. Sir, looking at this, I might have missed some of the points. What will be the composition you are looking at between the RAM and corporate loan components? The percentage in terms of the total loan book.

S Krishnan: Today I have a mix of 87% as the RAM and 13% as the corporate. Going forward while my focus and thrust will continue to be the RAM, I will also be on the corporate selective, particularly taking the exposures where it meets my risk appetite. I'll be doing that. I expect that gradually the ratio may it is changed to 85 to 15 and then 18 to 20 max of max.

Ashok Ajmera: And Sir, I mean you are focused on the lending through the NBFC is either for onward lending to the MSME, or for any Co lending or any tie up or anything to expand your book through the I mean indirect way through the NBFC, any policy?

S Krishnan: We're working on a strategy for this, particularly what you said on the Co lending and other aspect. We are working on that and I'll be taking to the board and then I will share with you. .

Moderator: Thank you. The next question is from the line of Jamir Ansari from Bajaj Alliance. Please go ahead.

Jamir Ansari: So just wanted to check in terms of the composition of our loan book, how much of it would be fixed rate and with respect to other floating rate loans. What would be the mix in terms of Repo rates and the other benchmarks?

S Krishnan: I don't have much of fixed rate. Fixed rate is very, very, few, and as far as the repo rate is concerned, it's around 40% if I'm right, anyhow I will ask my people to confirm to you, OK?

Jamir Ansari: Sure, not an issue and related to that. The question was that if I look at the numbers from the presentation, I see that the yield on advances haven't moved much between June and September, which is unlike most of the other banks which has seen an increase in the yield on their loans, so any peculiarity with respect to our book as to why this thing happened?

S Krishnan: The peculiarity is that I have not revised my rate of interest. I have not passed on the increase of the reference rate to my customers, so that is the reason while the other banks have done it. I have not done so far. My ALCO is meeting very shortly which will be taking a call on that.

- Jamir Ansari:** OK, but sorry to persist with that question. But if 40% of the loans are repo linked, the transmission would have happened automatically. Am I missing something?
- S Krishnan:** Repo linked should take place. The last revision was only now OK, so that will have the impact going forward. And the repo also once in three months only if we do it. It's not that the day they revised, automatically, the rate is revised here.
- Jamir Ansari:** OK, that makes sense. OK, so you have a three month lag in, in terms of revising. In terms of passing on the benchmark rate.
- Moderator:** Thank you. The next question is from the line of Ashok Ajmera from Ajcon Global Services. Please go ahead.
- Ashok Ajmera:** As for that our resolution plan implementation, note no 9 for COVID-19. The total exposure is around 619 crores. Out of that, what is slipped is hardly about, let's say 9.59 crore. And recovery is 46.11 crores. So going forward. Do you see any? I mean the slipping to the NPA will be very minimal like what is happened in this quarter.
- S Krishnan:** It will be very minimal. That is whatever slipped already is very minimal. As you observed, out of 620 crore. Only around 10 crore has slipped and the recovery was around 46 crore. So going forward, I expect that the same will be there or the slippage may come down also.
- Ashok Ajmera:** OK, so it is absolutely under control.
- S Krishnan:** Yes.
- Ashok Ajmera:** One is from the income point of view. You know the sale of BSLC, you have realized in the June quarter about, I think 66 crore and in September only 1.26 crore, so going forward for the next two quarters, do we expect some good amount of income? I think the premium must have come down now so there is not much chance of realizing.
- S Krishnan:** Normally the premium will go up in Q4. So that time we have lot of stocks to upload so we are waiting for a good time so that we can do it.

- Ashok Ajmera:** OK, so we can expect it in the last quarter of the FY23.
- S Krishnan:** That is what is happening when there is a pressure on the banks who are not able to meet the priority sector, they will be approaching. The premium will go up.
- Ashok Ajmera:** And Sir, again on the Treasury front. What is the composition of our Treasury non SLR and how do you see the treasury performing going forward for the next two quarters?
- S Krishnan:** As of now my Non-SLR is just 1298 crore. Going forward, I expect that there may be further rate hikes. That is what is being talked around. If that hike is there, I expect that by March quarter Q4 things will normalize. I will be able to have reversal of this. All these things, whatever I did, so I don't expect much of briefing from treasury, at least in the days to come. I expect other possible contribution.
- Ashok Ajmera:** OK, and one last question is on. I think one of the other colleagues also had asked a similar question, but I want to get little more expanded the answer, is that the though this festival season in the credit off-take might be good now, but at the same time there is a pressure on the people generally on the Retail loan books there can be some pressure because of the continuous hike in the interest rates. And overall inflation going up. And also you are also thinking to raise some kind of interest rate in the next ALCO meeting. So do you think that there can be some pressure leading to the delinquencies in the running quarter and the next?
- S Krishnan:** To answer your question, if I have to talk in general, yes, because of the inflation. Because of the increase in the cost of borrowing, definitely there will be a pressure strain on the borrowers, no doubt on that which ultimately will lead to increased stress. I will not use the word delinquent. I will say that there will be increase in stress. Now the increase in stress is a relative term. How far it will increase how far it will stretch? Will it result in delinquent? I expect that there will be little increase I have to be very honest with you. I am talking for the industry. There will be a little increase in the delinquent, but I don't expect that this trend will continue for a longer time. My expectation is maybe this quarter the current quarter that is a Q3. This may be there, but Q4

I expect that things will start easing out and will come to the normalcy. So by the end of the year, I don't expect that there will be much pressure on the asset quality of the banks. This is in general coming to my bank in specific that I'm not seeing much for the reason that one is. I have very diversified book. Unlike many banks where they have more of a concentration risk. I am very diversified and I expect a good monsoon across the country, particularly in Tamil Nadu where I have more concentration, so that will help me towards the Agriculture. The MSME activities are picking up. I expect that there will be a good growth and there will be a good churning out Hence I do not foresee much of delinquency in my bank.

Ashok Ajmera: OK, so maybe SMA02 too might get little increase, but generally will not commit to an NPA. That's what you are saying. I mean not much

S Krishnan: Yes, absolutely.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Sir, on credit cost. What can be the normal level going forward?

S Krishnan: Will be maintaining almost at this level.

Jehan Bhadha: At around 40 basis .50 basis points. So around that list, right? OK, and Sir, our calculated PCR is at around 50%. So are you fine with that or is there a possibility to increase that further to 65-70 levels? Like what is your thinking sir?

S Krishnan: One accounts and the other requires. Yeah I have today a net NPA of 296 crores. That is after the provision, I have 296 crores. I have also made additional provision of 300 crore citing any exigency on account of COVID or anything. I have kept 300 crores indicating that I am fully provided. I am a zero NPA Bank.

Jehan Bhadha: OK and last question. Like even at the time of IPO there were queries on this point of the shareholding which is held in the escrow side. So any like what will be the course of action going forward? How can this issue get resolved?

S Krishnan: So we have to wait and watch.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. S Krishnan for closing comments.

S Krishnan: Let me thank all the participants for spending the time and coming over for this concall. As I said in the beginning, that the bank has been continuously doing well and we will continue to do well, I'll be more than happy to have interaction with you at least once in quarter if not more. But I'll try to have a discussion with you at frequent intervals and going forward we will meet. Once again, thank you very much for your participation.

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