



Tamilnad Mercantile Bank Limited

Q3 - FY 2023-24 Earnings Conference Call

January 22, 2024

Management : Mr. S. Krishnan, Managing Director & CEO

Moderator: Welcome to Tamilnad Mercantile Bank Limited Q3 and 9-month 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 call, please signal an operator by pressing "*", then "0" on your touch-tone phone.

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

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

S. Krishnan: Thank you very much. Good evening, my friends. I am happy to share with you the performance of the bank for the Q3 ended December 2023.

The Board of the Bank today morning met and adopted the results, unaudited limited review results for the quarter ended. The details of the results have already been uploaded along with the presentation, both at the bank's website and also the sites of both the stock exchanges. I am sure that my friends should have gone through this. Nevertheless, I will quickly give the highlights of the performance for the Q3 for the immediate reference of my friends.

The total business increased to 85,185 crores from 78,242 crores year-on-year. As far as the shareholders' values are concerned, the net worth has been increased to 7,668 crores from 6,741 crores. The book value of the share is 484.25 as on the 31st of December against 435.69 year back. The earnings per share is 17.95 against 17.27 as on the 30th of September.

The other key ratios like when we talk of the asset quality, the gross NPA is continuing at almost the same, 1.7 as on the 30th of September, which has come down to 1.16. So, also the net NPA from 0.99 to 0.98 indicates that the asset quality is maintained. The return on assets is 1.93 for the quarter against 1.89 of the previous quarter. The return on equity is 15.11 against 15.01 as on the previous quarter.

The NIM, I can say that, by and large, it is at the same level. So, slightly differ by 2 bps to 4.08 during the Q3 against 4.10. The credit cost has been well contained which has come down to 0.06. The last quarter we had a little higher slippages which I explained to you last time. Because of that, the credit cost was 0.83. Otherwise, this quarter, the slippages has been contained. So, also the recovery and upgradations are almost matching to that which resulted in a very lesser position which has resulted in the credit cost to 0.06%.

The other interesting factor is on the SME front. The SME was 8.41% a year back, which has been brought out to 5.34%. And even if you look into all the categories of SMA-0, 1, 2, almost in all the cases, we are able to window except the marginal increase in SMA-2 by about 94 or so, which is a negligible one. Otherwise, it is just at 1.46% as far SMA-2 is concerned. 0, 1 have also been substantially brought down.

The stressed Assets ratio is at 3.08%, which was 4.01% a year back. The slippage ratio has been contained to 0.21 for the quarter of December against 0.82 in the last quarter. As far as the profitability is concerned, the net profit is 284 crores. And the net interest income is 537 crores, both of which are the highest in any quarter of the bank in the past history.

So, that is what in brief let me put to you. And I open the forum to my friends for interaction. Thank you.

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

Lakshminarayanan: Good evening. Couple of questions. Sir, when we started the year, we said we would actually have at least 50 branches open. But I see that we have opened only around 17 branches cumulatively in the first nine months. In fact, we just reiterated that three months back that our expansion will continue. So, I just want to understand why is that our expansion is a little low.

S. Krishnan: So, the other branches have been identified. The premises are work in progress, most of the branches. So, expecting it to be opened very shortly. Thereby we feel that we'll be able to achieve what we estimated as 50 before the year end.

Lakshminarayanan: Sorry, sir. So, how much do you intend to open in this quarter?

S. Krishnan: In this quarter, see, we have opened 17 branches already. Originally, we planned for 50. The rest of that is expected to be opened during this quarter.

Lakshminarayanan: All the 33 will be opened in the next two, three months.

S. Krishnan: Yes. 17 was opened in nine months, as you observe, and the rest of the 33 will be opened during this quarter.

Lakshminarayanan: Sir, the second question is that in terms of total assets, from where we exited in last financial year to nine months down, we are only 2% up. Now, is it a system issue or an internal issue that our growth is actually very, very underwhelming?

S. Krishnan: Sir, can you repeat? You are talking about the total assets growth?

Lakshminarayanan: So, the total advances for us, what I understand, has been remaining flat for the last two, three quarters. I just want to understand your view, whether it is a system issue or an internal issue. Why we are not growing?

S. Krishnan: See, my advances have increased by about 10% year-on-year, if you look into, has increased by 10%. Last year, December, we were at 34,802 and now we are at 38,386 crores. We have grown by 10%. And as I was telling you that normally the momentum comes in Q3 and Q4 of the financial year. All these banks and that is what is happening. And accordingly, we expect that we will be able to achieve. We gave guidance to the street of growth of around 12 to 15%. I expect that we will be able to grow by 12% overall for the current year. We have already grown by 10% and I expect that we will be able to make it to 12%.

Lakshminarayanan: Because I was comparing the exit of FY '23, we were around 37,600 and we are around 38,000 only. So, the last three quarters, quarter-on-quarter, there has been almost flat. Since this question. So, the third question is regarding the advances in agriculture. How much is gold-backed loans in this? And as a product, how much of our advances is actually gold advances?

S. Krishnan: Most of them are in the gold advances as far as agriculture is concerned. Most of them are in the agriculture Jewel loan. We have grown by about 852 crores during the quarter.

Lakshminarayanan: So, what is the total?

S. Krishnan: It is the total growth of 585. In agriculture, the growth is around 585 crores. There is also a seasonal tax rate which was given for various food and agro industries. So, there was a reduction of around 263 crores and the increase in the loan alone is around 852 crores.

Lakshminarayanan: Sir, in terms of MSME sector, which has been, you know, we are very strong in MSME sector, but that sector has actually been not growing in the last three quarters. Is it because we have slowed down consciously MSME sector or MSME sector itself is not growing? Like why is that our growth is not coming in MSME advances?

S. Krishnan: So, it is not that we consciously slowed down the growth. There is no such call. Still it continues to be our focus sector. One which I have to say, is that subsequent to the COVID when there was moratorium and also the GECL which you will be knowing, the repayments started now. Now the repayments are also bringing it down. So, in addition to that, we have to go. That is the normal one. So, there is a little risk and the industry also, MSME currently if I have to see are still to come up. If you look into the industry as a whole, the capacities where the new capacities are coming, now we have seen that there will be large investments in Tamil Nadu, more particularly the southern part of the Tamil Nadu., that too in Thoothukudi. So, when we get specific, there will be new MSME units will be coming and the capacities will also increase. So, that will also give a boost to us. But our focus continues to be MSME. Hope that we will be able to improve that.

- Lakshminarayanan:** And what is our yield on MSME, agriculture and retail sector as currently?
- S. Krishnan:** The agri, the yield is 9.15. The retail is 9.53. The MSME is 11.32.
- Lakshminarayanan:** Sir, in the last quarter, there was one large account which became an NPA. I just want to understand what is the status of that? How is that shaping up?
- S. Krishnan:** The recovery proceedings are ending. We have invoked all the recovery measures. First, we started querying and also talking to them. We hope that we will be able to get the recovery soon. Some of the recoveries, I expect, very shortly.
- Moderator:** Thank you. The next question is from the line of Jeffersen S, who's an individual investor. Please go ahead.
- Jeffersen Esch:** My first question is, for the past seven, eight years, the rate at which we grow our top line is in the range of 4% to 5% on a compounded basis. In the case of advances, it is around 7%. So, currently, we are sitting at a capital adequacy of about 25 to 26, which is way higher than the regulatory requirements. So, my question is, are we being too conservative here? Like, can we afford to be a little more aggressive in disbursing the loans?
- S. Krishnan:** See, we are in the sense, as far as the critic is concerned, we always go for the secured lending. We keep the asset quality on the topmost one. So, we go for the secured lending. In the secured lending, yes, we are aggressive. We are also turning our vision and we also go for then how can I reduce that? Can I go for the mixturization? All those are in process. But we keep in mind the secured security aspect and then call on that because we are more particular on asset quality.
- Jeffersen Esch:** And my second question is, actually, I had a question on opening up 50 new branches by the end of this fiscal year, but I think it got answered. But just to summarize what you have said, we will end FY '24 with a total count of 380 branches across India. Is that correct?
- S. Krishnan:** Yes. 340 it is not 300. 347 we have and we will end up with another 33.
- Moderator:** Thank you. The next question is from the line of Sonal Minhas from Prescient Cap Investment Advisors, LLP. Please go ahead.
- Sonal Minhas:** This is Sonal Minhas. Sir, I have two questions around the slippage. One is more around any near-term guidance you want to give around slippage because last quarter there was kind of an upward blip in the number. Is there anything, like, should we be factoring in that your slippage should be in the range of 0.2 to 0.3, 0.4, anything around that? That's one. And secondly, more from a risk control measure because we saw last quarter, there was a large MSME account and there was a large other account which slipped basically. So, under your tenure or maybe let's say, going forward, what are the ways in which we trying to see if there

are any early warnings around such accounts slipping? And what are we doing about it? Anything which you've changed as an institution in the last one or two quarters? Just want to get a subjective understanding of that.

S. Krishnan:

Let me say that the expected slippage, I don't expect any such big account in Q4 as it was in Q2. I gave the guidance that the gross NPA would be below 2, and stand by that data should be below 2. That is number one.

Number two, as far as the systems what has been put in place to ensure that is, which will be very, very visible from the SMA which has been brought down to 5.34 from 8.41 or so a year back. That itself is the volume that we are able to have an enhanced monitoring mechanism, which enables me to ensure that going forward, the slippages will be curtailed to a great extent. We have put in place the monitoring group, both at the corporate office and also at the regional level, based on the quantum, which has been assigned, and there is a great team of officers who are working on the monitoring, instead of going and knocking the doors on beyond the (inaudible 17:57) today or whatever it is, we start monitoring from day one itself. So, this enables me to increase my recovery collection efficiency ratio. And I hope that based new system, what we have put in place will help the bank to a great extent to compare their slippages. Every day morning, I have on my dashboard as to what is their slippage and what is their potential slippage. We have such a system. So, that potential is being followed up at various times, including wherever required, I myself also follow. As I said, these data are coming to me to my dashboard on daily basis. So, this system has helped to curtail, which is evident from this quarter itself. As I said, the credit costs will be 0.06 and the slippage is 0.21. So, this will continue like this. I expect that whatever we give, the guidance, it will be continuing this.

Sonal Minhas:

Sir, I have a second question, if I may ask. Sir, I see the deposits actually falling down and large part of that is linked to, I think a bulk deposit on one side, maybe shrinking. But just wanted to broadly understand your deposit and CASA strategy. Since you are opening branches and assuming the branches feed into your CASA, any guidance, anything which you're changing on your CASA, on your term deposits, which we should know for the next two, three years outlook, that will be helpful, sir.

S. Krishnan:

See, as you have observed, the deposits coming down and there again you have also observed that the bulk deposits have come down. It's true. If you look into my bulk deposits have come down substantially on every quarter. It is a conscious decision. As I said, we are more cost conscious. Today, if you look into the cost of deposits for every bank, including the TMB, it's going up. And it's very interesting, it's a great demand. Such a great decision, as I said, we are cost conscious. So, we consciously, efficiently manage the funds. That is why the deposits have gone down, which even with that, there is an increase in the cost of the deposits, which we have seen. Otherwise, the NIM might have been affected further. We are able to maintain the NIM just 2 bps. So, that is the reason.

Otherwise, if you look into the CASA, this quarter, the CASA has increased. The CASA has increased year-on-year in December by about 7.88%. That is what the year-on-year growth as far as the CASA is concerned. As far as the CASA strategy is concerned, we have formed a separate vertical for this, both at the HO and also at the regional offices. We have dedicated people for this. The HO, there is a separate vertical, who sits at Chennai who are able to go and meet the various big corporates, customers, get their accounts, their salary accounts. We have a lot of education institutions down south where we are the bankers. So, all the teaching and non-teaching staff from salary accounts are being taken by us. We also go for a free collection. These are some of the strategies which we are adopting. We started using the resources. I hope that this will continue in the days to come.

Sonal Minhas: This explains. And as you open more branches, anything which we are doing to attract more retail CASA, if I may just slip in a question there?

Moderator: Can you repeat? Have you opened every branches?

Sonal Minhas: Sir, as you open new branches, what's the strategy to actually get the retail CASA? Like, example, customers like me or somebody who...

S. Krishnan: As we open the new branches, now new branches we open after making a good study of center potential and our understanding of that. With that we are opening these branches and these branches, some of the branches are credit oriented. Some of the branches are deposit oriented. I can give some numbers which I have. Probably the 17 branches which I opened during this current fiscal in the nine months, the CASA ratio of all these branches put together is 39.41%. So, that gives me a good edge.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Sir, firstly, if you could give what is our current CD ratio?

S. Krishnan: It is around 82%.

Saket Kapoor: And any comparative number? Last year what it was? Have we improved on the...

S. Krishnan: It is now 82.02 and last December it was 80.11.

Saket Kapoor: And sir, going ahead, what do we envisage, how this ratio will be one year down the line?

S. Krishnan: We will be around this. We will be around this number.

Saket Kapoor: Sir, when we look at the granular detail of our loan portfolio on the liability side, it is we are more towards this MSME segment, the MSME segment. So, how is the granularity going to be

when our size grows? What portion of our loan book is towards the corporate segment currently?

S. Krishnan: No, corporate segments we are not, we focus on the MSME. We focus on the RAM segment, I can say, only a broader one and not on the corporate, but we don't say that the corporate we have closed the door. If you look into the overall composition, my RAM is 91% and the corporate and others are just to 9% of the total advances. So, we focus on the RAM segment which will continue to be our focus.

Saket Kapoor: One more point was about this 56 crores rupees ad-hoc wages part, sir. In which quarter has this provision being made of 56 crores? It was mentioned in the notes.

S. Krishnan: We have been making this provision for the past about 14 months we have been making the provision. Right. But this quarter alone, in addition to the normal position what we were making, this quarter alone we have made 14 crores additionally, this quarter alone in addition to what we were making regularly and the total will come to this level.

Saket Kapoor: So, then why have we referred this to this 56 crores rupees figure? What is this?

S. Krishnan: No, that is a total provision that is outstanding. It is basically to say that we hold a total provision of 56 crores towards the institutional matter.

Saket Kapoor: And that has flown through the P&L.

S. Krishnan: So, this quarter alone we have made totally 23 crores. Regularly we make around 9 crores per quarter. This quarter I made additional provision of 14 crores. That has come to 23 crores and the overall is 56 crores.

Saket Kapoor: Sir, come again. For this quarter, the impact is higher by 14 crores than the normal provision.

S. Krishnan: Yes, yes, higher by 14 crores in this quarter. Normal provision we make 9 crores and the total cumulative which I hold today is around 56 crores.

Saket Kapoor: And this 56 crores is for the nine-month FY '23.

S. Krishnan: No, not for FY '23. Overall, it will be flattened for this 9 months I can tell you. 55 crores is during 9 months period. Sorry, 45 crores is during the 9 months period and 11 crores was in the previous year.

Saket Kapoor: And out of this 45 crores, we have done 23 crores in this quarter itself.

S. Krishnan: In this quarter. In this quarter.

Saket Kapoor: Sir, going ahead, again, we will have the impact for the fourth quarter also? For the 4th quarter also, this will continue, this provisioning of ad-hoc wage revision.

S. Krishnan: Yes, but we are yet to start of the negotiation of the wage revision. We are not talking to the IBA settlement. Our bank is not talking to that. We have our own settlement. As a proactive, we started making provisions from November 22 itself, in line with what other banks are having. That is a proactive measure. So, we started making a small scale and now we have made additional 14 crores this time as we expect to be in this quarter only I have made. So, it depends on the negotiation. I don't expect that there will be much of one, maybe the next quarter, there will be some requirement.

Saket Kapoor: So, next quarter also, this 9 crores number will be there, sir.

S. Krishnan: Will be there. Will be there.

Saket Kapoor: 9 crores. As you mentioned that you are not agreeing to the IBLA provision percentage. So, what is the differential amount between what they are seeking and what we are provisioning?

S. Krishnan: We have a different wage structure than what the IBA has. We have the fixed variable pay like that to my employees, but we don't want to write it down. So, there is next to one, some old employees have got pay structure similar to what the IBA is having. The employees who are joining after we have that update, they have totally different pay structure. And even for the old employees, we are not party to the IBA settlement. So, we make a separate negotiation, a separate agreement with my own employees' association.

Saket Kapoor: Sir, you spoke about the Q3 and Q4 will be growth numbers as they pick up in the economic activities, and then there will be higher disbursement of the loan. So, taking that aspect into account, where are we, sir, in terms of ending the years with what we were guiding for 15% interest and growth for this financial year when we compare to last year? So, are we in the vicinity of closing the year?

S. Krishnan: Yes, yes. I gave the guidance of 12 to 15%. So, hope that we are still in the vicinity of that. That 12 to 15% of the guidance what I gave, and I hope that we will be able to do that. We will do in that band.

Saket Kapoor: And for the year, sir, what should be our exit rate for our ROA, NIM, and other important parameters?

S. Krishnan: ROA, I gave the guidance of 1.75 to 2, and definitely the guidance, we are not revising. That will continue. And then ROE, you asked about ROE. We gave the guidance of about 15. That will again continue. We will go to that.

Moderator: Thank you. The next question is from the line of Vignesh Venkatachalam, who is an individual investor. Please go ahead.

Vignesh Venkatachalam: My question is on the advances. We talked about confident on RAM sector, and that I can see in the MSME, the year-on-year growth is not that much compared to agriculture. Agriculture has been 25% has been growth in the advances. Is there any particular reason or how we can present in the future quarters?

S. Krishnan: Well, it is not any particular reason. As I was explaining, as far as the MSME is concerned, the MSME, I can say that after the COVID itself, the coming up of the MSME is a little slow. I was telling that the MSMEs normally come in large scale when there are new capacities of the large-scale industries. Whenever the new large-scale industries, the capacities come, the mushroom of the MSMEs will be there. And added to that, unfortunately, we had a big hit in the country of COVID, where these people, the MSME are very agile. So, they were affected. So, that coming up also takes time. All these have resulted in the growth also. So, that is the reason.

Year-on-year, the MSME growth and added to that another point is that the retailers have started for the GECL and also where the moratoriums were given, all those have started. And we have looked into that slippages are under the control. So, the recoveries when it gets started, the recoveries also contribute to these. That is the reason why the growth is 1.51% only against the agriculture growth of 35%. So, we still focus on that. We also have brought new products for operating the MSME, like in which we create MSME for the MINI LAP, because there are many people who are not able to have proper, this one, small, particularly the micro loan.

Similarly, we have got the GST loan, and very shortly I am going for digitalization. We will be launching GST loan Digital One, where it will be a very ease of convenience for the customers to have the facility. So, these are some of the steps which we have taken. In addition to that, I told in the last meeting also that we have constituted a large MSME hub in different places. It is getting stabilized. I hope that this will contribute to a greater extent in the months to come.

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

Lakshminarayanan: Sir, last call you mentioned that you have implemented a loan processing software and also trying to make some hubs around the MSME disbursement. What has been the progress? How things have panned out on these two things?

S. Krishnan: What we have done is we have finally taken for the retail and also the MSME, the digitization. As far as the retail is concerned, few of the products like the home loan, the vehicle loan, the gold jewelry loan, these all will be made(Inaudible 35:36).

Lakshminarayanan: I didn't hear it, sir. Sorry, sir. Your voice wasn't clear, you said gold loan and vehicle loan, then after the jewel.

S. Krishnan: Vehicle loan and also the gold jewel loan.

Lakshminarayanan: You have digitalized.

S. Krishnan: Jewel loan has been automated, so that my TAT can also come down. And simultaneously, we have also engaged with another service provider for digitalizing the MSME stream. And these are in advanced stage. I expect that this will be rolled over very shortly. These are in advanced stage of testing and the audits are going on. I expect that this will be rolled out very shortly where I will be able to have one. Whereas, already said the customers can digitally, sitting at their place of convenience know their eligibility for the loan based on the GST returns, which we call as "Do It Yourself", and second, they can also apply for the GST loan through the digital mode. The process has been totally automated where it will be able to give in-principle sanction immediately, or otherwise, whatever it is. And the entire process, will be automated, with the proper escalation matrix, wherever required, so that the phygital is also possible. It's not only the auto-digital one. There is also phygital, there is the assisted journey, because the customers of my bank, some of them may be able to have straight through entry in the digital. Some of them may require an assisted journey. So, we are also providing the assisted journey. These are in the advanced stage. I expect that this will be rolled out very shortly.

Lakshminarayanan: And in terms of creating the hubs for MSME loan processing, I think there have been, last call or so, you mentioned something on that front, sir.

S. Krishnan: We have created the MSME hubs in different locations. These MSME hubs are getting stabilized. We have posted exclusive relationship managers for these hubs. And these hubs are being headed by experienced, seasoned senior-level people, where they can take quick decisions. The whole advantage of this structure is that the sourcing and underwriting is totally segregated. Thereby, I ensure a better underwriting quality. With the digitization or automation, it will be further enhanced. The underwriting process will be further enhanced. That can be brought down because today everything is being done only by the branch. The branch is basically, I see, because my view that the branch should be a delivery channel where they can deliver to the customer. So, the other things ought to be taken care of by the back office. That is the whole purpose why this MSME hub has been brought and is specialized to experience the people who have been posted there. So, these things will lead the results in the months to come.

Lakshminarayanan: I have two more questions. The first question is, in terms of your replacement, we had approached RBI with three different candidates. So, what has been the progress? There has been some back and forth with RBI, or it will take its own time?

- S. Krishnan:** Sir, it will take its time because RBI has to, they have their own process of due diligence. It is with RBI. So, we expect that.
- Lakshminarayanan:** The last question is, when you started the year, you would have had some plans in terms of various things. Which of the areas actually is in your, some of them would have disappointed you in terms of any specific business activities or so. I just want to understand which of the things have done well as per your expectations and which are the ones which have not done well as per your expectations?
- S. Krishnan:** See, my expectation was that, basically, I wanted this year that there should be, there are systems procedures, the risk management systems and the control, the compliance are to be enhanced, so that there will be a smooth walk, subsequently. Simultaneously, it was also the digitalization. And we took the business process re-engineering project, which I told earlier also, which will enable me to have a relook on all my processes, the products, and fine-tune them wherever required, which will enable for enhancing the business. So, on the one side, enhancing the business, on the other side, enhancing the control digitalization, both will enable the bank to reach greater heights. I told that what has been achieved is that, yes, both have been achieved to a greater extent. That is what I have to say. Both the control measures and also on the BPR and also the digitalization. So, both have been achieved to a greater extent.
- Lakshminarayanan:** And on the other side, which are the ones which you thought would do well, it hasn't done well? Any activities or any specific business segments?
- S. Krishnan:** No, business segments, if you look into it, first, I should say that we are able to do better on the retail segment, definitely, able to bring in amongst my employees about the marketing. That is another great achievement I can see. The sense of, I can say, the rich culture, the compliance culture, the sense of compliance, the favor of compliance, had been brought in. Many things had been done on the IT side on the digitalization. All these are some of the things which had been done to a greater extent.
- Moderator:** Thank you. The next question is from the line of Sonal Minhas from Prescient Cap Investment Advisors. Please go ahead.
- Sonal Minhas:** Sir, my question was with regard to the stressed assets. I just wanted to understand what, sorry, restructured assets, sorry, and wanted to understand what portion of the restructured assets have been provided for already and anything you wish to speak about in terms of the trajectory of the restructured assets coming down or any NPAs coming off, lagging off from this particular part? Any subjective commentary, objective commentary will be great, sir.
- S. Krishnan:** See, let me say that the restructured advances totally as on the 31st of December was around 600 crores, 599.17 crores, against 896 crores a year back. So, that is the position. If you look into the NPA, the NPA in the restructured asset is 65 crores, against 92 crores in the year back.

If I have the moment of restructured also, what else is slipped in the current quarter out of the restructure is just 3.89 cr of all these slippage.

Sonal Minhas:

Sir, can you repeat the last thing? What is slipped, sorry?

S. Krishnan:

The slippage, you also asked as to how they are behaving. The slippage in the restructured standard accounts during Q3 is only 3.9 crores. Out of the total restructured book of around 600 crores. So, the slippage is very low.

Sonal Minhas:

And sir, how much have we provided for, again, the 600 crores that you speak right now?

S. Krishnan:

I will tell you. We have a provision of around 58 crores for this restructured book. Let me also tell that we have additionally over and above all the regulatory provision requirements, we have additional provision of 250 crores kept separately towards any contingency on account of COVID.

Sonal Minhas:

Which is not used and it might be used up.

S. Krishnan:

It's a part for that.

Sonal Minhas:

And sir, I wanted to understand the MSME segment. Others have been asking about this. We have been on calls of your peers as well who do a reasonable bit of MSME lending as well. Just wanted to understand, and this is largely South Indian focus bank, is MSME economy by and large in Karnataka, Andhra, Kerala, Tamil Nadu facing some bit of stress and it is coming out of it, or is it just that the CapEx hasn't happened in them as you were mentioning? Is there any broader macro data that you want to share about the MSME segment by and large across that four or five states that we are talking about here?

S. Krishnan:

See, by and large, the MSME segment are picking up after the COVID pandemic. They are picking up. They are in the recovery path. So, I expect that they will be able to come to the normalcy in the due course of time. They are picking up, in general, for the industry.

Moderator:

Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor:

Sir, when we look at our nine-month performance on a comparative basis, we have grown our interest income in the vicinity of 18 to 19 percent if we compare nine months ending December 22, vis-a-vis nine months ending December 23, and you are guiding for a growth of 12 to 15 percent. So, is there likelihood that for the fourth quarter ending 31st March 2024, we are likely to degrow from what we have been doing for the last three quarters?

S. Krishnan:

No. Why this one was my overall advances growth, my overall advances growth, if you look into, today, my advances growth is 10% for the nine-month period year-on-year.

- Saket Kapoor:** 12 percent.
- S. Krishnan:** Yes. So, that I will grow by 12 to 15% what I said. What you are asking is about the interest income. The interest income is based on the advances.
- Saket Kapoor:** So, what should be like this growth number of 18, 20% what we have seen for the nine months, this is likely to continue going ahead also?
- S. Krishnan:** No, that is why I took it along with the NIM because the interest income and the interest expenses both will be there based on the deposits and advances. So, it will always be better to measure through the NIM instead of the interest income on object number. For NIM, I gave the guidance of about four, which we will be continuing definitely.
- Saket Kapoor:** Sir, we have also seen that our cost of fund has been increasing with the revision, I think, so for the deposit rates. So, what likely would be the cost of fund going ahead? This quarter also, quarter-on-quarter, it was 11 bps upward, so now far to 5.9. So, what should be the cost of fund going ahead? We are guiding for the NIM to be maintained, then this arbitrage will remain for 4%.
- S. Krishnan:** Yes. Arbitrage will remain at 4%, as you rightly said. Then we talk of the NIM. If you ask the cost of funds in particular, cost of funds may increase by about 8 to 10 bps in the next quarter, that is Q4.
- Saket Kapoor:** Sir, going ahead say two, three years down the line, we will be a bank always focused towards the MSME segment only and having a larger portion of towards the RAM part only or are we trying to increase the pie going ahead with more of digitalization and other things into our forte that we would be able to detect stress in the system and thereby improving the product market also? So, what should likely be the growth journey from here, sir?
- S. Krishnan:** So, my focus will continue to be on the RAM segment. I will not say that MSME alone. My focus will be on the RAM segment. We continue to be on the RAM segment. And as you are also telling me about the basket, the RAM segment is slightly spread there. There is no concentration. In fact, that is a great advantage for me. That is why we are able to maintain the asset quality. My concentration will continue to be in the RAM segment, but not only on the MSME.
- Saket Kapoor:** Sir, this quarter I think there is a provision only for Rs. 2 crores. That is a significant reduction for quarter-on-quarter basis also. And year-on-year also, there has been a significant lowering of provision. So, this number is net of our recovery. That is what it should be likely. This 2 crores number?

- S. Krishnan:** Yes. See, 2 crores is the provision which you are referring. This provision is coming after netting of the retrieval of the provision on account of recovery. Right? Now, my additional provision required is only just 2 crores. Last quarter there was a one-off high slippage which warranted a higher provision. That is why the Q2, the provisions were higher and this time it has come down, which has been reflected in the credit costs.
- Saket Kapoor:** And that number was also 100 crores, I think. So, last quarter the slippage was significantly higher. What is the status on the same, sir, on that account? How many accounts were involved?
- S. Krishnan:** One big account, one of the participants was asking about the status of that recovery. I told you that all the recovery measures have been initiated be it on capacity, be it on filing of suite, be it on the negotiation also. All these have been invoked. So, the process is there. I expect some recovery to the near future to begin with. So, last quarter the slippage was very high. That is the reason the provisions were also high.
- Saket Kapoor:** It was in which category, sir? It was in which sector the slippage happen of 100 crores? It was single account.
- S. Krishnan:** It was single account. It was a single account.
- Saket Kapoor:** In which sector it was attributed to?
- S. Krishnan:** Not MSME. In other.
- Saket Kapoor:** It is in the other segment.
- S. Krishnan:** Yes.
- Saket Kapoor:** And we have sufficient coverage. The last point was that we have sufficient asset backup to that, or will that result in two accounts?
- S. Krishnan:** We have assets that, in fact, our bank, we always focus on the collaterals in addition to the primary securities.
- Saket Kapoor:** So, there is no threat to the recovery part. Once the process continues going ahead, we can recover from the sale of the collateral?
- S. Krishnan:** We don't initiate that.
- Saket Kapoor:** The account will return to normalcy going ahead. That is what the indication is.
- S. Krishnan:** The indication is that we will be able to recover the amount, but it has its own process.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. S. Krishnan, MD and CEO, for closing comments.

S. Krishnan: Thank you for sparing the time. Particularly today, the market has been declared a holiday. It is great that all of you have taken the time to interact. It is always my pleasure to interact with you. Thanks once again. We will also see whether can we have a personal meeting in the near future. I will let you know, and I will be more than happy to meet you all in person. Once again, thank you all.

Moderator: Thank you very much. On behalf of Tamilnad Mercantile Bank Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your call.