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Tamilnad Mercantile Bank Ltd
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Ref.No.TMB.SE.185/2024-25

03.02.2025

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Bandra (East), Mumbai - 400 051.

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

Ref: Symbol: TMB / Scrip Code: 543596

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call – Q3 Results

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that the transcript of the earnings conference call hosted by the Bank on the Unaudited Financial Results of the Bank for the quarter and nine months ended December 31, 2024, has been made available on the Bank's website at the following link:

Transcript of the Earnings Conference Call – Q3 Results

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

Kindly take the information on record.

Yours faithfully,
For Tamilnad Mercantile Bank Limited

SWAPNIL ASHOK YELGAONKAR
Digitally signed by SWAPNIL ASHOK YELGAONKAR
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Tamilnad Mercantile Bank Ltd. TMB Secretarial Section

Swapnil Yelgaonkar
Compliance Officer
Membership No: ACS 21877

Tamilnad Mercantile Bank Limited

Q3 - FY 2024-25 Earnings Conference Call - Transcript

January 29, 2025

Management: Mr. Salee S Nair, Managing Director & CEO

Mr. Vincent Menachery Devassy, Executive Director

Mr. P.A.Krishnan, Chief Financial Officer

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 and 9M FY '25 Conference Call hosted by Tamilnad Mercantile Bank. This conference call may contain certain forward-looking statements based on the beliefs, opinions and expectation as on the date of this call. These statements are not the guarantees of future performance and involve certain risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in 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 the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

Today on the call, we have with us the following management representatives: Mr. Salee S. Nair, Managing Director; Mr. Vincent Menachery Devassy, Executive Director; and Mr. P. A. Krishnan, Chief Financial Officer.

I now hand the conference over to Mr. Salee S. Nair, Managing Director. Thank you, and over to you, sir.

Salee S. Nair: Thank you. Thank you for introducing the team here. In addition to the 3 that you mentioned, I also have Mr. Ashok Kumar, who is looking at our Resource Mobilization as well as Anand Ganesh, who is our Head of Credit.

At the outset, let me apologize for being a little late. I know the presentation has been loaded a little, perhaps not as early as you would have probably wanted. We did have a tight schedule at the Board and this the Board meeting did go on for some time. But anyway, coming back to the quarter 3 performance of FY '25 of Tamilnad Mercantile Bank.

If I look at the operating profit that has improved from INR 370 crores to INR 408 crores, that's a growth of 10% year-on-year. The numbers I am quoting are all year-on-year. The net profit is again crossed INR 300 crores for the second time in the bank's history. It is up 6% year-on-year from INR 284 crores a year back to INR 300.24 crores.

Non-interest income has delivered a salutary performance with INR 189 crores, up from INR 158 crores, which is an increase of almost 20%. Gross NPA has decreased to 1.32%. A year back, it was at 1.69%, that's an improvement of 37 basis points. Net NPA likewise has also seen a sharp decline to 0.41%, 41 basis, from 0.98%, an improvement of 57 basis.

PCR. On book PCR has increased to 69.07%. In fact, I did mention that we will try and achieve the 70% mark by March. We have been on our way to that. And overall, the PCR is including the return of account is at 93.21%.

The total SMA to gross advances has also reduced. It has come down 157 basis points since the last year, and it currently stands at 3.77%. The capital adequacy ratio has increased to 29.35%, a jump of 340 basis points from last year.

The book value of the share has likewise increased from INR 484.25 crores to INR550.38 sorry, INR 485.25 to INR 550.38. The total business growth for the third quarter year-on-year basis crossed 10%. This is in fact the highest business growth that we have achieved in the last 14 quarters and that if you look at the quarter-on-quarter growth that has been achieved and also the growth, the business growth that we saw in FY '24, and I don't know how many of you have accessed already to the presentation.

We are seeing a graph trending up. For example, in FY '24, the total business growth that the bank achieved was 4.8% and now it has inched up in quarter 1 to 6.8%, quarter 2 to 7.8% and in quarter 3 it has crossed 10.4%. So that's the focus that we are bringing into the business is beginning to pay off.

It's early days, but we noticed that clearly, the green shoots are there. Likewise, on the deposit, an area of weakness for us, has also seen a similar growth. In fact from FY '24 where the growth was very, very muted at 3.7%; it has doubled to 7.7% in quarter 3 FY '25.

And advances, of course, has delivered a year-on-year growth of 13.7%. So that is something that in both the deposit and advances, if you recall my last conversation with the investor community, I did mention that we will cross 7.5% in deposit, we have done that. I mentioned that we will cross 13% in advances, we have again done that.

On the shareholder values, if I just take the net worth, I did mention that our capital adequacy stands at 29.35% and that's riding on a net worth of INR 8,715 crores. Today, the leverage of the bank is just 6.5%, that's a fairly acceptable leverage. The book value of the share stands at INR 550.38 it is. It has jumped from INR 522.37 to INR 550.38 and earnings per share that the bank delivered for the quarter is INR 18.96.

Now if I look at some of the key ratios. The net profit, as I mentioned, has crossed INR 300 crores, again for the second time. If you recall, it was at INR 303 crores for the quarter 2. And this quarter also, we managed through efforts to take it beyond INR 300 crores, it's at INR 300.24 crores. The operating profit is at INR 408 crores.

The net interest income is at INR 570 crores, up from INR 537 crores a year back. The gross NPA has been consistently moving trending down the last 4 quarters and stands at 1.32%. I just mentioned that. The net NPA at 0.41% has also seen a trend down, if you have accessed to the presentation and evaluating the presentation you would notice this.

PCR, as I just mentioned, is at 69%, it's an on-book PCR. The return on assets is at 1.89%. That it's almost flat, I would say, but maybe a little lower than what we achieved last year of 1.93%, and the return on liquidity is at 14.44%, slightly down again from 15.11% achieved last year.

The credit cost is at almost 0.08%. That is just 8 basis, pointing to the kind of quality that we are delivering on the credit. The cost of funds has moved up from 5.92% in the previous quarter and 5.90% in the previous year to 5.99%.

And the cost-to-income ratio stands at 46.31%. And when I talk of cost of funds that also includes the cost of deposits, which stands at 5.97%. Yield on advances is at 10.17%, that, if you look at the presentation, has come down from 10.47%. But if you recall, there was a technical return of account recovery, interest recovery, which had sort of increased the net interest income and consequently in yield on the advances.

Net of the interest recovery, we have mentioned also in the presentation, excluding the recovery from the technical written-off account, the yield on advances has moved up quarter-on-quarter. In fact, it has moved on year-on-year as well as quarter-on-quarter. Last year, it was 10.13%, it has moved up to 10.16% this quarter, quarter 3 of FY '25, as well as it was from the previous quarter at 10.11% also, it has moved up.

On the NIM, I did mention that we will try and defend the 4% NIM. It is actually at 4%. This quarter, we did not have the advantage of any technical written-off account, the interest sort of helping us in the net interest income. So net of that, if you look at, again, the net interest margin, if you remove, exclude the interest on advances and the collection sorry, and then advance the technical written-off accounts, it has been almost flat or maybe slightly up.

On quarter-on-quarter, if I tell you the numbers, first quarter of FY '25, it was 3.97%; quarter 2, it was 3.98%; and stands today at 4%. That is on the net interest margin. NPAs, I just mentioned, stands at INR 576.38 crores overall and is up 1.32%, and that's been trending down in the last 4 to 5 quarters. Net NPA is INR 177.59 crores, translating into 0.41%.

If I look at the NPA sector-wise, all across, it has come down, the gross NPA has come down -- it was year-on-year, it was last quarter, last Q3 of FY '24, it was at INR 649 crores, it come down to INR 576 crores. And the reduction is reflected in all segments other than the others, where I can show you a little later that how we are managing the portfolio with substantially reducing the portfolio in view of the stress element there.

So in the slippage, we are down to 13 basis points. Slippage ratio is 13 basis. Total slippages for the quarter was just about INR 54 crores; INR 6 crores of that being contributed by retail, INR 13 crores by agri, MSME at INR 29 crores and others at INR 6 crores.

The NPA, when I look at the NPA in quarter 3, the NPA, which was at INR 584.45 crores and as of 30th of September 2024, got reduced through a cash recovery and upgrade of INR 61.92 crores and slippages which was INR 53.85 crores combined aggregated the final number is a reduction from INR 584.45 crores to INR 576.38 crores.

SMA likewise, if I look at the SMA, SMA has also come down. Overall SMA has come down from 4.16% to 3.77% that is quarter-on-quarter and year-on-year from 5.34% to 3.77%. That's a substantial decrease. And SMA-0, SMA-1 and SMA-2, the contributions are more or less on equal terms.

SMA-0 contributed 1.36%, SMA-1 1.18%, SMA-2 at 1.23% aggregating to 3.77%. The contribution of retail to the SMA is 1.72%, agri is 0.29%, MSME is 1.58% and others pretty much is getting cleaned up, so the SMA component of this is very low, is 0.18%.

And we have also added a slide on SMA plus NPA and the trend there. And this also, if you look at it year-on-year, SMA plus NPA together was at 7.03%, it is now down to 5.09%. So this number, 5.09% is both SMA, the aggregate SMA, SMA 0, 1 and 2 as well as NPA put together, so that's at 5.09%.

On the stress assets, which includes the NPA, gross NPA and the standard restructured assets, the bank stands at 2.16%. So overall, the quality of the portfolio is being maintained and perhaps in some sense, improved quite substantially.

On the deposits, when we look at the deposit, yes, there is certain concern on the CASA. The CASA number is flat year-on-year. Not only year-on-year, on quarter-on-quarter also it is flat. And I just I did mention last time that we are taking a series of initiatives to address this concern and some of them have already been launched. I'll come to that later.

So but overall, the deposits has registered a year-on-year growth of 7.68%, which I said is double what we saw in the previous year for the bank. So like I said, the green shoots are beginning to show in the deposits. And this is the momentum is something we will try and continue going forward.

On the advances portfolio, the actions taken the numbers are responding to the actions taken already. And currently, the growth year-on-year is at 13.71%. Retail segment, again, has not been contributing has not contributed well in this. Again, we are taking certain measures there. Agriculture has contributed substantially.

On the MSME front, I would like to state that there again, we have given a split of below INR 50 lakhs and above INR 50 lakhs and at the above INR 50 lakhs number, if you notice that it is going at 11.88%. We are seriously looking at the low ticket size items where we believe it is from a liability perspective expensive to operate.

So this is one area where we'll be bringing an automated solution in the form of a business rule engine to tackle all these accounts so that we get quality and the numbers move forward after the complete data with due diligence is done.

On the RAM, RAM continues to be our bread and butter, contributing 92.39%. Like I mentioned earlier, the others category where we are conscious, it has been has provided a bit of a stress to bank. The stress has now been more or less been getting cleaned up. And yet we have not been growing this segment at all. Others is largely pointing to the corporate sector. And year-on-year, we have seen a 5.17% degrowth.

But despite that, as I mentioned earlier, the gross advances have moved up 13.71% year-on-year. On the financial performance on the profit itself, as I mentioned, we entered quarter 3 with a quarterly profit of INR 300.24 crores. This is up 5.63% year-on-year, that is, it was INR 284.23 crores in Q3 FY '24, so it's just a 5.63% growth year-on-year.

And when you look at the 9 months number, in the 9 months leading up to 31/12/24, the net profit delivered is INR 890.71 crores, which is 8.76% year-on-year. The balance sheet side, of course, has jumped to INR 64,716 crores currently. And also, like I mentioned, we did take a few initiatives in the last quarter. And in fact, on the 2nd of June sorry, January this year, we have launched 3 initiatives.

The Global NRI Center has been launched and aimed at, as I was mentioning, about 4%, 4.5% of current deposit, share of deposit NRI share of deposit. We want to ramp it up over a 2, 2.5-year period to 10%, which I mentioned that last time. We have taken this initiative to make that happen. So this Global NRI Center has been launched.

We have also put in place adequate number of relationship managers aimed at focus only on the NRI business. Credit management center. I also mentioned about carving out credit so that we have adequate focus and adequate skill set to manage the portfolio the credit portfolio that on a pilot basis, we have started on the 2nd of January this year again.

And the third initiative that we have taken is, again, aimed at deposits. The Global NRI Center was aimed at deposit. The transaction business unit, transaction business group, which is a third initiative is also aimed at improving the CA, the current account base of the bank. And this will be aimed at the current accounts, this will be aimed at the government account, this will be aimed at the institutions, the colleges, schools and the task accounts. So there's a new group within the bank that we have launched exclusively aimed at gathering low-cost funds.

And as I speak today, we have 125 relationship managers have been put in place to have this. And this number will go up. We will be ramping up this number as the months go by. So I think these two initiatives.

On the liability side, the Global NRI Center and the transaction business growth and the refocusing the branches on the liability business by carving out the credit management center, which we have now started on a pilot basis, I believe would help us ramp up the deposits going forward, perhaps more so in the next year.

So that's from my side. Okay, I think I do have one more on the network. We have opened another 5 branches in the quarter, taking the total to 20. I did mention 40. We have also given an approval for additional 13 numbers. And that is work in progress, and we are also identifying the five areas for another seven to be opened. So we will try and get to that 40 number.

Yes, that's from my side. Vincent, do you want to add something?

Vincent M. Devassy: Yes. So the performance numbers have been articulated by the MD and CEO. A couple of things I would like to add here is after the last quarter, that is Q2, in Q3, we have significant additions to the senior management. Our VP and Head Credit, EVP Credit has assumed charge. VP, EVP Inspection and Audit, IAD, HIA has taken charge.

And we are in the process of finding a new CFO, hopefully, the new CFO is likely to join either in the last quarter of this financial year or early next financial year, the first quarter of next financial year.

The increase in the cost of deposits, we were able to pass on to the customers as is reflected in increase in our net yield on advances, which was 10.11% without HOT, excluding HOT has moved to 10.16%. So there is a 5 basis point increase in yield on advances. As I can say, 7 basis point increase in deposits. So whatever additional cost that we have incurred in terms of attracting deposits, we were able to pass it on to the customer.

Yes, that's it from my side. Thank you.

Salee S. Nair: We have been able to defend the NIM at 4%. Yes, thank you.

Moderator: The first question comes from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, our SMA-2 has inched up a bit in this quarter. So any particular contributor to that or if you can throw some color on that?

Vincent M. Devassy: Please repeat the question. It was very feeble to hear.

Sarvesh Gupta: Sir, the SMA-2 book that has inched up a bit in this current quarter, so any particular contributor to that? Was that some large account or something? Or if you can throw some color on that?

Salee S. Nair: No, you're referring to NPA, you're referring to business? What is, we missed the first part of it.

Sarvesh Gupta: SMA-2.

Salee S. Nair: SMA-2. Okay.

Vincent M. Devassy: See, compared to last quarter, there is a little increase. But if we look at the trend, it is well within the trend.

Sarvesh Gupta: Okay. So was there some large accounts, which went to SMA-2?

Salee S. Nair: This is not one particular account, this is a well spreaded account. I agree that it has moved up from INR 490 crores to INR 537 crores. I assume you're talking about SMA-2, right?

Sarvesh Gupta: Yes.

Salee S. Nair: It has. It has spread over a large number of accounts, not any specific account as such. And I think that it's already showing a downtrend in the current month already.

Vincent M. Devassy: It was INR 561 crores in Q3 financial year '24, now that is INR 537 crores in the current Q3. So on a Y-o-Y basis, there is a decline from INR 561 crores to INR 537 crores.

Sarvesh Gupta: Understood. And your CD ratio is already around like 85%, if I can see that.

Salee S. Nair: 86%, yes.

Sarvesh Gupta: 86%. So given that, now because we have been growing our deposits at 6%, 7% and CASA challenges remain as it is. So how do we see the growth? Because we have probably hit the upper tier of where we can. I mean we have grown at 13%, but going forward, the deposits have grown at a very small pace till now. So how do we see that situation?

Salee S. Nair: Yes, first, of course, the CD ratio, in fact, is 86% plus. That is something that we accept. But you look at the leverage of the bank, it is just about 6.5%. And the leverage is at 6.5% only because we had a comfortable capital position. I did mention about the net worth being INR 8,715 crores, which also has been subsequently funding. That's one of the reasons why rather the reason why the leverage is at 6.5%.

The other aspect of it, and you did rightly hit the button saying that going forward, it will be difficult under the deposits actually move up in tandem. And that's exactly if you look at quarter-on-quarter, the way the deposit is behaving and the way the advances are behaving and if I just this is something that you can reduce it yourself.

In the quarter 1, there was an advance growth of INR 882 crores against a negative growth of INR 327 crores from the deposits. Obviously, you can say that the deposits that on a standalone basis, that operation is not sustainable. But then we move to the second quarter, that has improved to a CD ratio of 549, I'm talking in terms of an incremental.

But you look at the quarter 3, the CD ratio, the incremental CD ratio has come down to 106%. So the deposit, the ratio of deposits to advance, the CD ratio as we call, is responding to our actions and it is beginning to moderate. And the moderation is very, very clearly evident in the last 3 quarters leading up to the 31st of December '24, where I said the incremental CD ratio has come down to 106%.

And this with the actions that we are taking on the deposit side should moderate further and we hope it will come down to acceptable number and a sustainable number going forward.

Sarvesh Gupta: So then going forward, what will be our advances growth rate that we would want to have?

Salee S. Nair: Advance growth rate for the current quarter, we will still maintain at 13% plus maybe towards the slanting towards 14%, but 13% plus, but the focus would be on the deposits where we are looking at crossing 8% and also bringing it close to, like I mentioned, the incremental CD ratio to around 100%.

So the advance and deposit, we hope to move in tandem in a way that CD ratio remains at just to a 100% number

Sarvesh Gupta: And these deposits so that we have accrued, let's say, over the 9 month, how much of that has come through bulk deposits?

Salee S. Nair: Bulk deposit in our total deposit base is about 11%. The CASA that has remained flat. So the CASA's contribution to the deposit mix has not been there because this remained flat. So the growth, which I mentioned earlier of 7.7% that come out of the term deposits. And in the overall package, overall deposit portfolio, the bulk deposit is contribution is 11%.

Sarvesh Gupta: Understood, sir. And sir, finally, on the leverage point. So while you are levered less, but that is also helping you on your NIMs and ROAs. So as you grow, how do you see these NIMs and ROAs, where do you see that settling into? Because right now, our credit costs are probably at the lowest point of the cycle then your leverage is also low, which is helping your NIMs also. So I mean, how do you see these things moving in the medium term, let's say, next couple of years? How do we see all these metrics moving...

Salee S. Nair: Next year, if I look at the NIM, I don't think we will be able to do a 4% NIM. I think that would be a challenge. There will be moderation of NIM going forward. But this will be in the 3% of course, we also anticipate a rate cut, hopefully, I don't know, when the NPC meets, right? So could be, we will be looking at 3.75% to 3.8% kind of number. But the reduction of the NIM, we hope to make it up through volumes – growth. So that is one aspect of it.

And on the ROA, again, the current number is something going forward, we will not be able to defend this 1.89%, I think we've been looking more at 1.75% kind of number. Because as the business expands, as more of the business comes out of the deposits, the lever, as you rightly mentioned, the leverage is going to increase and that will have a consequence on that.

Moderator: The next question comes from the line of Sana Mehta, an Investor.

Sana Mehta: My first question is what are the initiatives taken in terms of ESG?

Salee S. Nair: See, what we have done is we spend about INR 1,400 crores to run this bank. And this was entirely being, the entire operations has been done on a margin basis. So the first thing we are doing in that is to get this automated. We have just picked up vendor management system from Oracle and it will be customized for us by the Deloitte. And one of the focus area of that is to understand our Scope 1 and Scope 2 expenditure and from there, derive the emissions.

And we are also engaging with a startup to understand at a high level what sort of emissions that we are doing on Scope 1 and Scope 2. I think that's something that we have slated for next year. And for that, the data they're going to be picked up through the automation that we have just done.

So the first step of getting the whole the vendor mechanism, vendor system, your electricity bill payments, your vehicle buyout, the car the whole is getting in place so that we have the data. And the second step towards the end of next quarter, towards the end of next quarter, we will be going for a high level measurement of our own emissions. We'll also do Scope 1, Scope 2 and also look at the emissions on the Scope 3 side.

Sana Mehta: Okay. Sir, and one more thing from my side. I would like to give a small suggestion that is it will be really helpful if you can like upload the investor presentation 2 to 3 hours before the call so that we can analyze the results.

Salee S. Nair: Sana, I really, really apologize for you. In fact, that was in our intention. But unfortunately, the Board meeting because of the agenda that it had to sort of got extended, but we will take care of it going forward.

Moderator: The next question comes from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: So the first point, which you yourself mentioned that there is pressure on NIMs that is visible, and it would be difficult for us to maintain the NIMs and hence, the ROA and the other metrics. So is it only on the basis of cost of deposits, the cost of fund that has gone up, that is putting a pressure on the yield or what explains this lower trajectory going ahead? And what steps are you taking...

Salee S. Nair: No, Saket, if you look at it quarter-on-quarter, we have actually improved the NIM. When I exclude the interest recovered on written-off accounts, interest recovered beyond the principal, what you recover is actually the interest and that gets added to the net interest income. And if you exclude such interest generated from the written-off accounts and sanitize the net interest income for that and the derived net interest margin, you notice that quarter-on-quarter, it is moving up.

In fact, quarter 1, it was 3.97%; quarter 2, it has moved up to 3.98%; and in quarter 3, it was 4%. The NIM that you have seen earlier, it also had a component of what I mentioned as the interest on the written-off accounts. But in fact, in the response to your question earlier, because this also substance, because the leverage is low. We are working on a 6.5% leverage and the capital does not come at a cost, at least on paper. So when you look at capital not coming at a cost that adds to a better NIM.

And as the leverage increases and we start operating more and more big deposits, the NIM is likely to moderate. But as I mentioned earlier, this moderation because yes, deposits are happening, consequently, the advances are happening, it will be more than compensated by the volume. So it's not going to have a dent at the profit, final numbers, but the NIM at 4% because we are not on the unsecured, we are not on to the credit cost kind of numbers.

We are only on the secured lending side, it is bound to take a bit of a knock and we still believe that the next year end, we still can get to a 3.75% to 3.80% kind of number.

Saket Kapoor: Sir, when you mentioned that the low leverage, can you explain what are you trying to explain. I'm not well versed with your comment on we are at low leverage. So if you could just please explain...

Salee S. Nair: What I'm saying is a substantial percentage, it is actually capital. Capital is a servicing cost in terms of dividend payouts, etc, right, in capital acquisition. But on the book, it is at 0 cost. Part of your capital is at 0 cost. And that adds so that sort of helps in maintaining in certain NIM, a few basis extra on the NIM. Got it? Saket?

Saket Kapoor: Sir, I'll take it then offline. I still could not make it correct.

Salee S. Nair: Okay. I think we'll explain that to you offline.

Saket Kapoor: Sir, but the point we are just trying to understand that the basis of the economic activity and the type of delinquencies we are seeing in terms of personal loans, the traction which was anticipated in the economy. Things are not looking very good as such the economic data are reflecting. So given the current environment, if you could just give us some basic understanding how the verticals are shaping up, especially in terms of our exposure to the retail segment and we see lot of delinquencies in terms of personal loans and also so how are we aligned in terms of growing our book profitably and with lower delinquencies going ahead, sir?

Salee S. Nair: No. I think on the delinquency side, on the NPA side, we'll continue to show good, essentially because what we've seen across the banking industry, the delinquencies, the stress sort of cropping up, are largely related to the unsecured loan lending that is done by these banks. In our case, the unsecured lending that we have is less than 0.5%. This is a bank that has always believed in the secured lending and the small segment of unsecured lending that we have is actually related to the is related to the it's about INR 200 crores that are linked to the education loans.

So it is a secured lending and the kind of the impact of whatever we are seeing in the market of delinquencies popping up in the unsecured space, I don't think that is going to touch us because your 99.5% plus is secured lending.

Saket Kapoor: Okay. But sir, where is the growth going to arrive when the economic indicators are not pointing towards growth as of now? And also we being a midsized bank, our cost of fund and the cost of growing the capital will always be higher in comparison to the other banks. So what should investors look forward from seeing these going ahead, sir?

Salee S. Nair: The growth on the liability side, I just mentioned that we have put in place 2 very clear drivers of growth, right? We have the NRI driver, we have the TBG driver. On the asset side, we will continue to focus on the gold loans, which is giving us good traction. In addition to that, as I mentioned, we have created credit management centers with in fact, this has been done on a pilot basis in Thoothukudi, this region in Thoothukudi and we will expand into the other 11 regions in the early next year, in the first quarter of next year.

And the focus of that is going to be the MSME, the MSME and the retail segment. And what we are also looking at is, we are going to focus on the turnaround time, on the speed of delivery and we are getting systems in place, automated systems in place to achieve that. We have also taken a consultant on board to help us get the entire credit management center automated from a credit delivery perspective. So once the turnaround time, currently, which is quite sizable, I'm not getting to the numbers, is brought down significantly, we believe that we have a market to pierce. This is we also have a loyal market.

In addition to that, we also have a market waiting to pierce, which we believe we'll be able to do with the kind of automation, with the kind of significant reduction in the turnaround time, we hope to achieve maybe in the first maybe around second quarter of next year when the systems will is likely to go live.

So the unsecured portion you did ask about the unsecured portion. I have the numbers here. We have INR 109 crores of education loans, which is category falling in the category of unsecured and another around INR 150 crores of lending to the MFI which also is of, is also can be considered as part of the unsecured where the delinquency can be, people are worried about the very good side. So overall, it's just about INR 250 crores. That's why I did mention that it is about 0.5%.

Saket Kapoor: Sir, two small points and I'll join the queue. Firstly, what portion of our loan book is towards the corporate sector? And how are we approaching this segment because the growth, the yields, the competition is all towards the corporate side, whether it is midsized corporate or the large corporates whoever we can cater to depending upon our reach?

And secondly, sir, taking into account the lower NIM guidance given to, given like rightly by you, what should we expect in terms of the profitability growth, we are almost at INR 890 crores for 9 months vis-a-vis INR 819 crores for the last 9-month comparison. So ending this year and going ahead, how likely is the profitability charge that is still going to be for some better understanding for the investors, sir?

Salee S. Nair: Yes. On the first question, the corporate segment is a highly competitive segment and finely priced, and that's a segment that we will not be entering in a big way. In fact, our share of corporate segment is just about it's under 8%. So I think it will remain at that kind of number, I think, going forward.

So we will not be entering in a big way. We are mindful because there's lower ticket size is where we believe the yield can be better, and we will stick to the MSME segment. We'll continue to stick to the MSME segment. On the profit side, we will not be aiming to see, going forward, we will be investing heavily in the IT because as part of the modernization as part of the transformation of the bank, we have already initiated the process of branch process automation.

We have initiated the process of, I did mention in response to another query that we have already started the vendor management system. We have started the customer experience that we are on the etc. I think a lot of investments are happening to modernize this bank.

So your cost-to-income ratio is something that we would be looking at, it might move a little up to about 50%. That's my own bidding of it. I'd have to see how the going forward, the evaluation of additional software that we intend to pick up in our journey to modernize sort of pans out.

But despite that, we will be looking at something around, I think we would be looking at a growth of about 10% to 12% between 10% and 12% for the current year. When we close the year, we will be at a lower end of 10% and upper end of 12%. That is what we are aiming for in the current year.

Going next year is something that possibly I can give you a guidance in the first quarter because the transformation journey is something that we really need to look at the kind of investment that is required before we give but I can assure you that the business growth is going to happen and the momentum of even next year is going to be upwards of what I just mentioned for the current year.

Saket Kapoor: Sir, sorry to harpen on it, but when you mentioned that it will be we will be investing more on technology and upgrading our system so that the stress could be also be recognized early. So which are the verticals from which where we will be upping our loan book going ahead? And where and what are the, what is our underlying strength that we are going to have more exposure towards the MSME and the RAM sector?

If you could just allude since our geographical presence is also limited, although sir, we have a branch in Kolkata, I am from West Bengal but other than that it becomes quite a Herculean task for a small mid-cap bank in the current environment to go for deposit and the lending part also. So investors would like to get an understanding that there are some there are definitely some missing link that is the stock quote below onetime book also and investors who have invested in the bank are not being able to gain the increased market cap which is not evident in the prices and there is lesser interest also in the investing community with respect to TMB.

So how can these factors be corrected, also steps taken to improvise and improve the investor confidence also because the business aspects are there, but that is not getting on to the ground with the investing community. That is what my basic understanding is, sir.

Salee S. Nair: Yes, I understand, Saket. Taking from your first question, of course, our focus area in the bank is going to be the MSME and retail, but without looking away from the agri, from the gold loan franchise that we have going fairly strong, that has delivered a 35% growth year-on-year, and that will be something that we continue to focus.

And apart from that, as I said, the focus is going to shift as much to the MSME and the retail. I think that is where there is a lot of market for our sized bank to, we don't find any potential there. Particularly when the kind of investment that we are making in the underwriting, the investments that we are making in the automation of the process, is going to have a significant if we can deliver 13%-plus growth in the kind of systems that we have currently and the kind of systems that we're envisaging going forward.

I don't think your business or advances is going to be a challenge at all. That is one. You did mention that you are from Kolkata. Yes, we do have a strategy in place to look at expanding the branches outside the state of Tamil Nadu, and we will do it in a very calibrated fashion.

And, we are also looking at creating the credit management centers outside to ramp up or substantially reduce our turnaround time and ramp up our advanced growth in that region as well. So that is one. And second, on what we are mentioning about raising the investor confidence. I'm sure the investor confidence will flow back as we demonstrate continuously that the numbers at an acceptable level, which let me assure you that, as I mentioned earlier, I don't know that if you have listened to my initial remarks where I did mention that the business, total business has exceeded 10.4%.

And the advances growth has exceeded 13.5% or it has 13.7%, which is the highest in 32 quarters. And the business growth is highest in 14 quarters. So the green shoots are there. The numbers are moving up. And of course, 1 or 2 quarters of numbers is not going to make a difference in the numbers.

So delivered as yet, it's not up to what we would like to sort of tom tom about, but as a number gets more and more evident, I'm sure the investors would come back to this table to the counter of TMB and the market valuations will go up. Rest assured that we are on the job to both improve the business and the profitability.

And like I said, our substantial transformation of the bank through automation of the internal process and release productive impulses, which is going to have a salutary impact, a positive impact on the business and profitability going forward. Rest assured.

Moderator: The next question comes from the line of Anant Mundra from Mytemple Capital.

Anant Mundra: I actually joined the call late, so you might have already answered so pardon, just pardon me for that. I actually wanted to understand, sir, our cost-to-income ratio is quite good as compared to your peers. So it's, I think, below 50%, between 45% and 50%. So I just wanted to understand because you've joined recently, you would want to hire your own team and spend on the tech and upgrade entire system. Where do you see this number settling in the long term?

And I just don't want to understand from a cost-to-income perspective. Like I also wanted to understand, overall, our leverage is quite low. So as and when the leverage scales up, where would our NIM settle, where would our cost to income settle, what do you see the sustainable credit cost and finally, ROA and ROE? So that entire tree is something that I wanted to understand from a long-term perspective. That was my first question, sir.

Salee S. Nair: I think I did mention this already. Cost to income, we are looking at touching about 50%. We are at 46%, I think it will move further as we start investing. And I think it will be in the 50% range. It will be in between the 50% range. And the next one that you did mention about, what is the next one?

Anant Mundra: Sir, the entire ROA tree. As the leverage goes up, because currently, we have very high capital, but as and when leverage goes up...

Salee S. Nair: Yes, as the leverage goes up, yes, we would be looking at a slight reduction in the NIM. And I did mention earlier in response to another call that we'll be looking at 3.75% to 3.80% and the reduction will be more than compensated by hopefully by the volume of the business that will accrue in, which I did mention that the volumes that we have achieved in the third quarter is if you were not there in the call, it is the highest in the 14 quarters and the advances was highest in the 32 quarters.

So that so the green shoots are happening, and I think the wallet is going forward, we hope to ramp up, see that moving further up. And on the ROA, I did mention that ROA would moderate a little more. I think it is at 1.89%, but we will be defending at 1.75%.

Anant Mundra: Okay. So sir, this ROA of 1.75% is assuming what leverage? Can we do a 10 times leverage with by defending 1.75% ROA?

Salee S. Nair: I have actually not done a backward calculation on it. No, I think we have not done that. We'll have the calculation, maybe off-line, we can tell you, okay?

Anant Mundra: All right. And sir, one just one final question. So our CD ratio is, I think, north of 85%. So...

Salee S. Nair: 86%, yes.

Anant Mundra: 86%, right. So is it safe to assume that our advances growth will be constrained with how much we can grow our deposits? Can we grow advances more than our deposits?

Salee S. Nair: Yes, that is exactly what I did mention this in response to another question. And I also was looking at how the CD ratio was moving quarter-on-quarter. That it was adverse in the first quarter, it sort of was 5 times in the second quarter and came down to 106% in the third quarter.

And this so we are beginning to see some amount of sustainability in the CD ratio happening. And I think that in this current quarter, we are looking at bringing it below 100%. I'm talking in terms of incremental CD ratio, okay? Once that starts building down once that comes below 100%, it gets into the sustainable territory.

Of course, you are going forward, I think we will be coming into a much, much 80% the kind of number that we are showing at 86% is the long-term thing that we're looking at currently, at least for the next year. But the trend is getting better and better, it is getting more and more sustainable.

As we see the CD ratio comes to 106% in incremental CD ratio comes to 106% in quarter 3. So that was a worry for us earlier. Now I think that the concern is sort of coming down.

Anant Mundra: And sir, have you given any guidance for FY '26?

Salee S. Nair: I mean, see, this bank is on a transformation journey, which means there is a substantial investment happening in various sectors, various aspects of the banking. I did mention a few of them. We are trying to get papers out of the branches through the branch process automation. We are getting our credit process automated. So we want to focus and get it before we start I can give you a guidance early in early next year when we, when our whatever we are, the journey that we have had, we have started, starts yielding some kind of the results.

So right now, we are taking the pain of having the existing system run along with the automated system parallelly. So we have that challenge. But from a broader perspective, I did mention for the current year that we will be crossing 8%-plus on the deposit and 30% plus on the advances. And the next year, from again a broader perspective, which I may have to, I may have to tweak depending on the kind of investments depending on the process flow automation investment that we are making would be a deposit side 10% on the deposits and getting close to 14% on the advances in FY '26, 14% to 15%.

But again, this is all dependent on the kind of what we are looking at the investments taking off, the productivity impulses sort of getting delivered, which we should know by the first quarter of next year.

Moderator: Ladies and gentlemen, in the interest of time, that was the last question. I now hand the conference over to Mr. Nair for his closing comments.

Salee S. Nair: Like I was saying in response to various questions that this bank is in the cusp of a new journey. I think we are looking at this is a legacy bank manually run substantially. So we are doing a lot of investment in a variety of areas in the banking space. I just had mentioned about the credit underwriting, credit automation. We have also set up focused units for driving and strengthening the deposit franchisee. And I believe these are going to yield results in the quarters to come. That is directly and positively going to impact the profit and profitability and the return on equity as well.

So this quarter has been from that perspective, some demonstrative quarter where we have seen the business in a break from the previous muted growth. And we have seen, like I mentioned, across the business of the aggregate business crossing for the 10% for the first time. And that's something that we will build on quarter-after-quarter. Each quarter, you will see an improvement in the percentage of growth in the total business and that's something we are, at TMB, we are committed to. Thank you. Do you want to add something?

Salee S. Nair: Yes. Thank you.

Moderator: 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.

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