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The Manager,
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'G' Block, Bandra - Kurla Complex,
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 – Q2 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 half year ended September 30, 2024, has been made available on the Bank's website at the following link:

[Transcript of the Earnings Conference Call – Q2 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 Yelgaonkar
Compliance Officer
Membership No: ACS 21877



Tamilnad Mercantile Bank Limited

Q2 - FY 2024-25 Earnings Conference Call - Transcript

October 29, 2024

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 Tamilnad Mercantile Bank Q2 and H1 FY25 Earnings Conference Call. 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 an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Salee Nair: Thank you. Thank you very much for this opportunity. Of course, we announced the results, the quarter results yesterday for the September quarter of 2024 and we have delivered the highest ever net profit ever in the bank's history of INR303+ crores and this is riding on a net interest income of INR596 crores, interest income of INR1,337 crores and a total income again high of INR1565 crores.

To state some of the highlights for the quarter on a year-on-year basis, the operating profit has improved from INR365 crores to INR465 crores. It's a growth of 27.40%. A net profit, as I just mentioned, it is INR303 crores and this is up 10.58% from INR274 crores in the previous quarter, in September quarter FY24. The net interest margin has increased to 4.25%, an increase of 15 basis points from 4.10%.

The non-interest income has improved to INR227 crores from INR156 crores. It's an increase of 45.51%. The gross NPA, a benchmark of how we do the credit and writing, has decreased to 1.37% from 1.70%. That is an improvement of 33 basis points. The net NPA has decreased to 0.46% from 0.99% earlier. That's an improvement of 53 basis points. Net NPA, in fact, has more than halved.

The PCR, the on-book PCR, the provisional coverage ratio has increased to 66.40% from 41.96%, almost a 25% increase. The SMA to gross advances, when I talk of SMA, it is a default to one day, has reduced to 4.16% from 5.59%. So it is not just the gross NPA that has reduced, even the SMA component in the gross advances has reduced. And this has come down to 143 basis points.

So the result of all this is that the return on asset has improved to 1.94% from 1.89%. The capital adequacy has therefore increased to 29.59% from 26.04%. That's a three and a half percentage increase from the previous year.

Book value of share has increased to INR532 crores from INR466 crores. That is INR532 crores from INR466 crores. On the growth front, on the business front, the total business has gone up from INR85,092 crores to INR91,875 crores as of 30.09.2024.

The total advances have moved up from INR37,778 Crores to INR42,533 Crores. And within the advances, the RAM segment has moved up to INR39,277 crores. And on the deposit front, the total deposits have moved up from INR47,314 crores to INR49,342 crores.

And within that, the CASA segment has moved up from INR13,172 crores to INR13,873 crores. Now, when I get to some of the other numbers, the EPS, earning per share has moved up from INR17.27 crores to INR19.15 crores. The other ratios, when I look at the other ratios, I just mentioned the capital adequacy, this has moved up to 29.59%. The return on equity is at 14.83%, flat at 14.83. But the NIM, as I mentioned earlier, has moved up from 4.10 to 4.25. And on a quarter-on-quarter basis, has moved up from 4.12% to 4.25%.

The credit cost, another parameter of how credit is administered, has moved down from 0.85% year-on-year to 0.55%. Even sequentially quarter-on-quarter, it has moved down from 0.89% to 0.55%. The cost of funds for the bank has been impacted, and it has gone up 13 basis points from 5.79% to 5.92%. And this is also true not only of sequentially, but it is also true quarter-on-quarter, where it has gone up 13 basis points.

But it has been more than offset by the e-loan advances, which has gone up year-on-year from 10.19% to 10.47%. Even sequentially, from quarter-on-quarter, it has moved up from 10.22% to 10.47%. Moving to the end, to give some color on the NPA, the significant, we have the NPA's mix at, retail at INR32 crores, I don't have the percentage here, right? Agri 48, MSME, which has been worrying the bank, has been contained at INR274 crores.

It has been tackled progressively, and you can see the progress on that in the coming quarters. And the slippage ratio, quarter-on-quarter, it has come down from 0.84% to 16 basis points. The total slippage across all segments was INR63 crores for the quarter.

And it is flat when you look at it, almost flat when you look at it on a quarter-on-quarter basis. The movement of NPA, as I just mentioned, there was a reduction in the NPA of INR66 crores, and the slippage was INR63 crores, with the result that the overall NPA has reduced from INR587 crores to INR584 crores for the system. That's where I say not only in terms of percentage, which largely is a function of the denominator and the expansion of the advances portfolio, even in absolute terms, we have reduced the NPA number, which has gone down, as I just mentioned, from INR587 crores to INR584 crores.

SMA is well contained, even SMA2 is just at 1.15%. As I mentioned earlier, the entire SMA portfolio from default one day is contained at 4.16%. So the entire portfolio, which is in the SMA or NPA category, is just about 5½% of the entire advances book.

So I think that points to the credit quality that is being maintained by the Tamilnad Mercantile Bank. On the stressed assets, restructured assets, again, it is getting contained. It has gone down

from 3.23% to 2.42%. It is an addition of the restructured asset advances, as well as the gross NPA. So there also you see that it is almost a percent that has been knocked off.

Moderator: Sir, should we start the question-and-answer session?

Salee Nair: Do you want to add something? I think I'll leave it to Vincent to say first.

Vincent: Good morning, everyone. MD and CEO have mentioned about the highlights of the performance and the all-round improvements, which the bank has made on all areas of efficiency and profitability and also asset quality. One or two more points which I would like to mention.

MD has clearly mentioned about the SMA, what is the SMA and NPA put together and what is the stress to the portfolio overall. And if we look at the sector-wise SMA position, I would like, I am happy to mention that while our NPA in others is now at the highest 274, but if I look at the SMA, it is only 0.21% of the advances only SMA category, SMA 0, 1 and 2 put together in others. In MSME also, we were able to contain in a big way.

We had a SMA position of 2.19 during Q1 '24-'25, which has come down to 1.78, again showing a very strong position as far as the asset management is concerned. And in Agri, I am really happy to mention that our stressed SMA 0, 1 and 2 is only 0.27 of the portfolio. And in Retail, it's only 1.91. So overall, the asset quality management, I would say that it is well under control. We have built a very strong advances book, and the stress level is very less going forward, going to be very less going forward. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anil from Contrarian Value Edge. Please go ahead.

Anil: Yes, thank you for the opportunity. My first question is we are very strong presence in Tamil Nadu. So, what are the strategic plans for expanding further within southern India and potentially other regions?

Salee Nair: Yes, thank you, Anil. I think what we are, we have a plan to open 40 branches in all in the current year. We have already opened 15 of them. Four have been opened outside the state of Tamil Nadu and 11 have been opened within Tamil Nadu. We have been also facing a challenge of sourcing resources from outside Tamil Nadu to open branches there. Essentially, we need a local connect to make a branch a success and get, you know, get the business.

So, what we are addressing is we are taking 170 new officers from the market essentially from outside Tamil Nadu to ensure that our branch presence outside is strengthened. And, you know, some of the branches we'll be opening in the remaining part of the current year would be outside Tamil Nadu and will also ride on the kind of numbers we get from outside Tamil Nadu. The 170 numbers I just mentioned would be aimed at opening new branches outside.

So, then the mix of outside branches and within Tamil Nadu branches is something that the pay will depend on the space at which their branch opens. But ultimately, our game plan is very clear that we would be looking at a significant presence outside the state of Tamil Nadu. And the first step in that is hiring, you know, resources from outside, from the market and the number of 170 is the initial intake I just mentioned.

Anil: Thank you, sir. And the second question is, apart from the existing products, do we plan to launch any new products? Like in the past, we mentioned about affordable housing and gold. So, what are our plans for the new products?

Salee Nair: No, as much as the new products, we are also looking at entering new areas, right. We will be refining the products as we go. The existing products will be sort of refined further to suit the market. That's certainly on.

We are also looking at, putting an offering of the recurring deposit in some fashion in that deposit side. But as much as that, we are also looking at entering new areas, as I just mentioned earlier. We are seriously looking at the NRI clientele, NRI customers. And we are looking to open a global NRI center in Cochin. I think that we will try and open within the next two quarters, aimed essentially at the NRI clientele in the West Asia, in Singapore, in Malaysia, and in the world over. Currently, I think our deposit is, the NRI deposit segment is contributing just about 4%. And this is something through opening of this, we expect to ramp it up to over 10%. We are also looking at a transaction business group. Again, looking at, current accounts and looking at, you know, the entire gamut of operating accounts of the business community, including, some of the institutions, temples, societies, governments.

And we would be ramping up our presence in the market by hiring feet on street. And this is something, again, we will have it ready over the next two quarters. And the current account and cash management products, you know, past mission, the whole gamut of that would be looked at by this transaction business group.

And I'm sure that is going to, that will bring Tamilnad Mercantile Bank back into the business community. And as you know that the current account is the trigger point for actually launching some of these customers into the credit area where we gain confidence in giving them credit.

So apart from that, on the credit side, also, we have looked at, a couple of major offerings are coming on. We are introducing our TMB GST scheme, which is an overdraft facility based on the GST data analysis that we will do. This is going to be online.

Apart from that, we are also introducing a Mini LAP entirely online, except for that, segment where the physical analysis of our physical requirement of having the mortgage done. And hopefully, I think this Mini LAP, we intend to deliver in three to four days. And the 'In-principle sanction' would be delivered in a matter of hours.

Apart from that, some of the deficiencies that we have noticed in our services, we are addressing them. Especially, we have just got our approval, and we have integrated the GST. GST payment has been integrated with, for our, with our system. We are into the CBDT area, and the customs, I think, over the next two quarters, we will be on their platform.

Along with this, we are also having a serious look at our internet banking and mobile banking and to address, to enhance the effectiveness of this, and to not only compare, to benchmark them not only against the market, we are also seeing, as a late mover, can be even better, the products in the, as compared to the peers in the market. Yes, Anil, thank you.

Anil: Yes, so one last question. Our NIMs and ROAs are highest among our peers, so is it sustainable, and what are we doing that it remains sustainable?

Salee Nair: NIMS at 4.25, I, I think, as the business expands, some contraction is, I think it would, is inevitable, but we will try and, protect or try and defend the 4% NIMs. What was the next one?

Anil: Our Return on Assets are only 1.8, 1.9, again, is the highest?

Salee Nair: Return on Asset, again, we would be looking at, in the range of 1.75 to 1.80 or maybe within that 1.75 to 2, certainly 1.75 will be defended.

Anil: Thank you, sir. Thank you, and all the best for all very detailed answers. Thank you so much.

Moderator: Thank you. The next question is from the line of Vinith Jain from Siddhi Capital. Please go ahead.

Vinith Jain: Am I audible, sir?

Moderator: Yes, sir, you're audible.

Vinith Jain: My first question is, you, we have opened 15 branches in the half year. So do you think are we on track to completely open up 40 branches by the end of this financial year?

Salee Nair: No, like I said we held back opening up the branches because our desire was to sort of improve our presence abroad and we also had a resource challenge. So the branches would be opened because as I said earlier to a question from Anil that we are sourcing 170 new offices from the market, precisely for augmenting our resources with the intention of opening branches. So in the second half, opening 25 branches is something that we will focus on, and I see no reason why we will not be able to accomplish that.

Vinith Jain: Okay. So in the past, the bank has mentioned about centralized stream for MSME disbursements and increased focus on the segment. Whereas when we look at the numbers, most of the growth is

visible in the agri segment. Can you please explain your strategy towards disbursements within the three segments, retail, MSME and agri?

Salee Nair:

Okay. So what we are also now looking at, yes, we set up a few centralized MSME hubs and what we are now looking at is a bit of a course correction. We are elevating that MSME hubs into credit management centers and moving the credit itself out of the branches so that the branches can focus more on in the deposit center and the deposit franchise. In the credit management centers, one of the issues that we have is the skill set and that's something that we will seriously focus on.

We are also looking at layering the relationship managers with senior relationship managers, either internally or source on the outside of high quality, high skilled persons who will be looking at the larger value loans and others will be looking at the smaller value. I think this is a lesson that we are the feedback we are getting, and the architecture will be strengthened based on that. Along with that, the credit management center would not only look at the MSME piece, but it will also look at the retail piece per se.

So if you look at the agri, the growth in agri has come largely from the agri gold loans. So to push the retail and to push the MSME, we are creating these credit management centers and I hope in the next two quarters this will be up and running. And this will be specialized set up with shared services and with feet on street and adequately staffed with skilled people and I'm hoping for a significant growth in the credit area, particularly in these two segments going forward.

We hope to close the year with a 13% growth in advances per se and I think we are looking to grow at least 15% in the coming year. I'm saying that additional growth is going to be contributed by MSME and retail segments.

Vinith Jain:

So coming to the next question, you have already mentioned about the IT upgrade which you guys have been looking at. Certainly, the bank is lacking at the net banking interface and also the linkage with CBDT has been a very long-awaited facility from you. So is there a timeline where you can tell that your net banking experience will upgrade for the customers and when can you have the CBDT linkage for that direct payment of taxes, direct taxes, I would say?

Salee Nair:

Our desire and the focus would be to have the revised internet and digital offering in place by the first quarter of next year. As I said, the GST has already been integrated. CBDT is going to be done. A CBDT would happen over the next 10 days. Your customs, I think could take a little more time, but the internet and the digital offering would be in place by the first quarter of next year. IT is not an overnight job. It takes time to study the gaps to look at what the other peer banks are offering, how do we offer them or perhaps better them. So I think the job is on. Incidentally let me also tell you that we are taking, we are augmenting our IT resources.

Again, we are taking about 47 IT personnel from the market and that also would be necessary for augmenting our IT offerings.

Vinith Jain: So how much on the opex do we expect to increase on the cost?

Salee Nair: The opex you have a number on that. I think we'll be spending INR100 crores at least on the capex side and INR100 crores on the maintaining net. And this, of course, going forward, this will not be etched in stone. I think we will look at whatever is required to match up to the market in the IT space.

Vinith Jain: And the last question, with the CD ratio about 86%, are you looking to raise funds through other channels to fuel the growth?

Salee Nair: We would be looking at, in fact, in the initial phase because we are still comfortable on the funding. We do have an excess SLR already available to fund growth for some more time, at least for the current year. We would certainly be looking at some of the refinance opportunities from SIDBI, NABARD, NHB, etc that is initially available. We will certainly be looking at. Other forms of funding, we will not be looking at in the current year, but we will be laying the path for that in the current year, and we'll be seriously looking at it next year.

Meanwhile, like I said we are also looking at how our deposit franchise is strengthened and how the deposit engine fires. I think that's something we are on the job on a day-to-day basis here to see that it moves up. We'll be looking at some of the - like I said, certificate of deposits, etc perhaps IBPCs, Interbank Participant Certificates, deposit, etc, looking at the need and like I said, not this year, but perhaps next year. And we'd also look at some whether we can raise some of the resources through securitization piece. That again, is not something that we'll be considering this year, but everything will be on the table from next year.

Vinith Jain: So one last bit on any update on the last corporate account.

Moderator: Sorry to interrupt you I would request you to please rejoin the queue for your follow-up question. Thank you. The next question is from the line of Lakshmi Narayanan from Tunga Investments. Please go ahead.

Lakshmi Narayanan: Thank you. I have a few questions. First is from your retail book, the average ticket size seems to be around INR6 lakhs or something and I also understand that most of our loans are to home loans and LAP, as well as there's also a bit of loan against shares, I mean, loan against deposits, etc. So just want to understand what segment we are lending in what's the kind of product depth we have in retail?

And if our average ticket size is just around INR6 lakhs or so, what kind of home loans we are doing and how do you intend to increase this retail? I'm asking this specifically because both

you and the ED have come from an eminent bank, which is into - which actually really expanded in retail. So what are your learnings and what do you want to do in this bank? That's the second part of the question.

Salee Nair: Retail book, I don't know from where you got the 6 lakhs ticket sizes, is that right?

Vincent Devassy: 6 lakhs includes the entire portfolio, which also includes our jewel loan. So if we add jewel loan and add all retail, and if we divide the total outstanding by total number of accounts, of course there'll be 6, but that will give us a completely misleading picture. If I remove my gold loan from the overall portfolio, if I take only housing loan, it is in the range of 25 to 30 lakhs. And we are mostly focusing on Tier 2, Tier 3 centers, and our home loan penetration in Tier 1 is less, and that is the reason why it is roughly in the range of 25 lakhs.

Salee Nair: And one more thing I'll tell you, we are conscious of the fact that servicing small loans entails an HR cost. So we would also be looking at how do we improve the ticket size across all segments. Of course, jewel loan is something separate because it is need-based, and we're not prescribing any kind of value proposition there. But others, we will be seriously looking at how we can tap a higher segment. That is going forward.

And as to your next question, having come from SBI, both of us, rather. I think I'm happy that you realize that we have come from SBI. I think we would be certainly looking at modernizing the bank. I think there's something I've been telling to my guys also, how do we convert a 103-year-old bank into a 103-year young bank?

And I think that requires reinventing the bank itself and modernizing the bank. I think that's a job. I will see the results of it over the next 2, 3 quarters. It requires a serious infusion of technology, automation of processes, and how do we increase the productivity of the staff by reducing the cost of dealing both by the customer with the bank and dealing with internally, how do we increase the productivity by reducing the cost of operations itself? I think that's a serious effort that we are engaged in. I think it will take a while for the results to be seen.

We are on several projects that are on the drawing board towards this in the technology sphere. And I think some of the impact would be seen maybe in the second quarter of next year. It's something that you will have to bear with us. You'll have to be a little more patient. But like I said, we have seen numbers that are significantly larger, 50, 60 -- 50 to 100 times the size of this bank. And we will see that experience is brought to bear on this bank and the growth numbers is something that we will push going forward, without compromising on the profitability angle.

And serious underwriting skills, how do we automate the process of credit delivery, particularly in the smaller segments? You did mention about 6 lakhs of ticket size. And that, how we can deliver it largely in an automated manner is something we are already on the job. It's on the

drawing board, getting a business rule engine to tackle some of the MSMEs up to 50 lakhs in the initial phase and going forward and spreading it larger later. It's all on the drawing board.

And one of the focus point of creating this credit management center, is precisely towards that to bring in operational efficiencies and to bring in a substantial technology afforded automating the whole process, along with getting a set of specialized teams to manage the credit. You will see all the results of that, I think, like I said, perhaps in the second quarter of next year.

Vincent Devassy:

Mr. Lakshmi Narayanan, a small piece of clarification. See, we have mentioned about the average ticket size and all. This jewel loan general category, which is non-agri, is classified under retail. That is one of the reasons why we get a distorted picture. Second, if I look at the home loan outstanding, the outstanding to the total number of accounts, the average will come to 12 lakhs. The main reason is some are repaid, some are in the course of repayment, some are only partly disbursed.

So I have not calculated on the basis of the limit sanctioned. If I take the average to the outstanding to the number of accounts, then it is 12 lakhs. So it is basically because of the repayment and also a partial disbursement. Thank you.

Salee Nair:

Just to add, Lakshmi Narayanan, just to add, we have just signed a good historic, I would say, wage revision, where we are shifting the staff from a fixed model into a CTC model. In fact, earlier 19% was on CTC model. The late entrants were on the CTC model. We are now shifting them substantially into the CTC model. 79% would be the final number. So the CTC would be designed, the variable pay will be designed to ensure the growth for the bank. That's also one piece that we have sort of tackled.

Lakshmi Narayanan:

Okay. So you mentioned the percentage. How much will be now shifted to the variable CTC model?

Salee Nair:

79%. Not only 79%, there is a 79% is the number that has already been shifted. In the balance, 21%, we expect a substantial number also to move in. We have given the options to move into a CTC. We are awaiting their response. But we see a substantial number there also to move into the CTC model. As it stands, 79% going forward. Another 5% at least to move, at least to move.

Lakshmi Narayanan:

Got it. So my second question is that you mentioned two people have joined, around 40-odd people have come in the IT division. And I believe that the IT division...

Salee Nair:

No, I think if you thought it -- I didn't say they have joined in. We are sourcing them.

Lakshmi Narayanan:

Okay. So now this IT team will be -- I mean, I remember IT team was based in Chennai. So this entire staff will be based in Chennai?

- Salee Nair: Yes. Largely they'll be in Chennai because sourcing of talent to Thoothukudi is a challenge that we have. So this will be in Chennai.
- Lakshmi Narayanan: One more question, if I can squeeze in. So if I just look at your agricultural loans, is it right to say that around 80%, 85% of your agricultural loan is gold loan?
- Salee Nair: It is substantially gold loan. I don't have the numbers right now. I can get the numbers, but it's substantially gold loan.
- Lakshmi Narayanan: So maybe going forward in the presentation, if you can just give granular details of the RAM portfolio...
- Salee Nair: We will do that.
- Lakshmi Narayanan: It will be helpful for us. We can save some time. Thank you so much. I'll get back to you.
- Moderator: Thank you. The next question is from the line of Narendra from Robo Capital. Please go ahead.
- Narendra: Thanks for the opportunity, sir. My first question is regarding the MFI exposure, right? So how much of our book is comprises of microfinance? And are we seeing any stress in any of the segments that we operate in or any geographies? And consequently, what would be our outlook on the credit cost?
- Salee Nair: Now, going forward, I don't see the credit costs impacting the bank's functioning much, because as I said, the unsecured component in the bank's portfolio is less than 1%. And we are not seeing any significant presence there as well. So I don't think that's a challenge that I foresee in the next few quarters or going forward. And we will be very careful in looking at the unsecured portfolio and certainly mindful of the consequences that the market is facing in that area.
- Narendra: Okay, understood, sir. So can you expect the credit cost to remain the same at current levels going ahead as well? And what will be our microfinance exposure?
- Salee Nair: Microfinance exposure, like I said, should be unsecured microfinance exposure would be the, I don't know the number, but it's insignificant. Insignificant. I think it is not there, right? We don't have, yes. Or?
- Narendra: Yes, sir. Credit cost, same?
- Salee Nair: I think like you said, the microfinance, I think it is practically not there, not something that worries us at all.

- Narendra: Okay, understood. And sir, following up on the previous participant, right? So on the growth part, right? So where do we see, at what size do we see our book to be in FY '26 or '27 if you have a target in mind? That should be our loan book number.
- Salee Nair: Going forward, we will have to look at the impacts of what we are engaged in currently. Like I said, we are engaged in several structural changes aimed at, kickstarting the, or improving the deposit growth on one side and growth of advances along with quality of the growth on the other side.
- So, the impact of that is something that we would have to evaluate before giving a guidance for the, you know, 26, 27, etc. But this year, I am hopeful that, your advances number would, should cost 13% and the deposit should be in the 7.5% to 8% range.
- Narendra: Okay, sir, and the other cost?
- Salee Nair: Obviously, when I say that, with the structural changes happening and the beneficial impact of it, the next year, the numbers for both deposits and advances would be significantly higher. I've given you for the current year, the next year would be significantly higher. I'm not going to hazard a guess on the number right now until I evaluate the impact of the changes happening on the ground.
- Narendra: Yes, but it should be better than this year, right?
- Salee Nair: Yes, definitely, definitely.
- Narendra: Yes, understood. And so last, last one, one thing I could ask, the cost to income, given that we are investing so much on tech and branch expansion, so would it remain at the current levels, slightly go below or is there scope for reduction?
- Salee Nair: The cost to income is currently at 40%, 43%. This 43.51%, the cost to income, it is at 43.51%, it has come down from 46.99% earlier, but sequentially from quarter on quarter, it has moved up from 41.42% to 43.51%. One of the aspect perhaps we will not be able to take advantage in the coming quarters is the PSRC income, right? So I suspect this will move up marginally up. I don't think, but it will be somewhere in the 45% range.
- Narendra: Okay, okay. So, understood. Thank you and all the best.
- Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead. Mr. Saket, I would request you to unmute.
- Saket Kapoor: Yes, madam. Thank you. Namaskar, sir. Thank you to the team for organizing the call. Sir, firstly, as you alluded to the point that we will see transformation for the bank going ahead in terms of

the improved business and continuity in profitability. So, sir, how are we going to firstly garner deposit for the same? And then secondly, sir, our lending is only towards the RAM segment. So how are we going to diversify into the same or are we going to remain focused only as a RAM player?

And sir, you mentioned about the employee cost, this variable pay part. So, and there was also some provision of INR117 crores or INR118 crores that we took. So, if you could just explain how this employee cost line item is going to behave on a quarterly basis? And then I have a small one more point to make and I'll join the queue.

Salee Nair:

Yes, first question on the deposits. As I was mentioning earlier, we are engaged in setting up, elevating the MSME hubs into credit management centers, where we are trying to pull out the credit activity from the branches into this credit management centers for operational efficiency and for ring fencing the skill set required to manage the credit. So, when that moves, along with a lot of ancillary functions also will move to the CMC, the Credit Management Center, freeing up the branches from that activity.

We noticed when we did an analysis, we figured out that one of the areas why the deposit was not picking up in the branches was because of their attention and because of the focus on the credit and maintaining the quality of the credit, and the subsequent audit that happens, you know, tying down their resources. So once that is freed, we believe the branches focus can be brought back into the deposit and their only area of mandate, rather the mandate would be the deposit itself. And we are going to see significant, we anticipate a significant growth there.

Apart from that, we are also to augment or verticalize the deposit measures. We're also looking at setting up an NRI center to drive the entire, to bring in focus to the NRI deposit and drive the NRI business across the bank. So that's another one that will be adequately staffed with presence, perhaps even, you know, agents outside the country.

And we are also looking at setting up the transaction business group, which would be aimed at the current account. So, we are a business focused bank, and we would like to bring that business back into it by getting into the transaction business, managing the operating accounts of our businesses. And the entire product offering would be refined or added to look at their requirements.

And this is one focus area where we will be looking at current accounts, doubling our, you know, we're looking at in those next two years, doubling our penetration into this segment. As well as this would also, should also serve as a lead generation point for our credit off take. So substantial work is on to improve the deposits, deposit base. Like I said, we expect the deposit base to close this year with 7.5% and substantially improve the growth in the coming years.

- Saket Kapoor: Sir, the MSME part of the employees. Yes, please. Sorry? You were telling something, sir? You did mention about -- sorry. May I continue, sir?
- Salee Nair: No, I was just going to the next question that you had asked about the employee cost. We anticipate the employee cost will go up by about INR5 crores per month. And, it has been anticipated and provided for. If you look at your results for the quarter, anticipating the requirement we have already provided for this. So, the impact on the profit is going to be minimal going forward on account of the wage revision. You were saying some...
- Saket Kapoor: Sir, I missed your number on employee cost. What would be the quarterly number going ahead on account of employee cost?
- Salee Nair: One minute, I'll just give you that number.
- Saket Kapoor: And this MSME transition story of creating more business, I will take it offline. I could not make the entire part of it for the NRI deposit part, have we done the groundwork, and we will be implementing the same in the near future or we are just scratching the surface now?
- Salee Nair: No, I think it is just off the drawing board. The groundwork is being -- we have just begun the groundwork for it. It is not something that we anticipate any benefit to accrue in the current year. It is more, I think, we would hope to get the benefit of it in the next year.
- Saket Kapoor: Okay. So this will take time to mature or even to kick off?
- Salee Nair: Structural changes or transformation, as you put it earlier, is certainly going to take time. We'll have to -- we will keep the engine running until these take root so that we can push the car into a different speed orbit.
- Moderator: Sorry to interrupt you, sir. I would request.
- Saket Kapoor: Ma'am, I will join the queue. Please provide an opportunity once again. I have a couple of closing points on my side. Thank you, sir. I will wait in the queue again.
- Moderator: Sure, sir. Thank you.
- Salee Nair: Thank you.
- Moderator: The next question is from the line of Pulvarthi Sai Kiran from Pulvarthi S. Advisors. Please go ahead.
- Pulvarthi Sai Kiran: Yes. Hi. Thanks a lot for taking my question, sir. You have been a couple of months in the bank. I just want to understand, sir, how are you looking at a bank like the size of TMB in the next three years and what are your priorities and then what kind of timelines and targets and goals

you have for the bank as such? As an investor, it will be very helpful to understand in which direction the bank is moving.

That's the only question I have. Thank you.

Salee Nair:

I think the answer would be modernize, modernize, and modernize, right? Get back into roots, get back into the forte that we were comfortable with earlier, the MSME area. We had a strong deposit franchisee that we intend to recapture by various initiatives that is on the anvil. I'm not going to get into the details of it, including the digital offerings, which we are trying to revamp.

All this will take time. And the results of it, I expect to start being visible from the second quarter of next year, or the first or the second quarter of next year onwards. We are going to see visibility on this. So going forward in three years is going to be a completely different bank.

Pulvarthi Sai Kiran:

Sir if you can provide us further details in terms of the priorities for the bank, when you say modernization, if you can go a little further, that will be really helpful too.

Salee Nair:

I think I did mention that in the earlier when I was answering the earlier analysts. One, of course, is that we are centralizing the credit delivery. We are automating the credit delivery in a substantial manner. I think below a certain ticket size, immediate would be 50 lakhs. We would be automating it totally. We are also looking at significantly improving the skill set of personnels in the credit management center, the centralized credit delivery platform that we are going to have. We are going to have one each per region with an apex and at the Head Office managing it.

That's going to take care of the credit side of it. And when the credit is going to move out, the branches are going to be freed, and we are going to use the branches for seriously strengthening our deposit franchise. We are looking at increasing our digital offering, customer conveniences, reducing the cost of customer to deal with the bank, as well as reduce the cost internally in managing some of the activities within the bank.

So, process automation is something that would be looked at. Like I said earlier, this would be - - we will be partnering several firms outside and pick up software on a build-operate model. We are also looking at sourcing resources from outside, particularly in the IT area. I just mentioned that we'll be getting at least 47 over the next few months to drive this.

While we partner them, the customization would be significantly done by our own resources. This is the first intake that we will have, the 47 resources that I mentioned. We're also looking at deepening our ties within Tamil Nadu branches, as well as strengthening our branch network outside. I just mentioned – I mentioned earlier that we'll be opening 40 branches. That task is on.

And to staff some of them, to relieve the pressure on the staff, we are also getting 170 officers recruited. And they'll be recruited outside Tamil Nadu to be stationed outside Tamil Nadu. So, that's something that we will be focusing on. I did mention about some of the other aspects that sort of moved out of the drawing board, which is the NRI Center that we are focusing on, looking at increasing the current 4% share of the deposit base to over 10%.

And that's something that we will try and see whether we can achieve it by the first quarter of FY27 to raise it beyond 10%. I also mentioned that our offering to the cash management services offering to the current account holders and the businesses, which was our strength earlier, would be brought back. And the entire gamut of our offerings will be digitalized. And that's one area that we are seriously looking at.

Moderator: Thank you. The next question is from the line of Shrish Vaze from Moneylife Advisory Services. Please go ahead.

Shrish Vaze: Thank you, sir, for the opportunity. So, my first question is regarding the gold loan. So, do you provide the portion of gold loan as a percentage of the total loan book? And what would be the split between retail and agri? And if you can also provide the LTV for the total gold loan portfolio?

Salee Nair: Yes. So, gold loan, we are very mindful of -- No, I think Vincent Devassy – Vincent would answer that.

Vincent Devassy: So, gold loan, you have asked about the LTV. So, basically, RBI has given a clear-cut picture direction as to what should be the LTV. And we are well within that LTV for different segments. So, the LTV for retail and SME will be different from that of agri. So, we are mindful of that. And we have monitoring systems also put in place to ensure that at any given point of time, there is no LTV breach.

And we are also developing capabilities to ensure that sufficient advance warning signals are generated by the system the moment it nears the LTV level. So, I didn't get the first part of your question. You were asking about the percentage between retail and agri. So, out of our total agri portfolio, I would say that around 85% will be, it may be 1% or 2% here or there, around 85% will be agri and the remaining non-agri.

We will be foraying into another segment, which is SME. And the work is on. And that product will be rolled out in a very, very few days' time, or maybe one- or two-week's time. Thank you.

Shrish Vaze: Yes. So, just if you can provide me the proportion of total gold loan book as a percentage of the total loan book...

- Vincent Devassy: Yes, as you know, our total advances portfolio is for INR42,533 crores, of which housing loan is for roughly 5,000, 4,898, jewel loan is 15,639, roughly INR15,650 crores. That is the total jewel loan, out of INR42,533 crores of total advances portfolio.
- Shrish Vaze: Got it sir. And my second question, around that, there was some news that the bank had hired an external consultant for revamping the MSME strategy. So, if you can provide some details around this, like what exactly are you thinking, and what exactly are you thinking around this strategy and what exactly is the consultant task in revamping this number?
- Salee Nair: The consultant's task is twofold, in fact. One, of course, is the way credit delivery was happening that was largely manually done. So to automate the process is one aspect of it. The second is getting the skill set centralized and creating the hubs. Now, we have elevated that to the credit management centers. So, they would be looking at both these aspects which is the automation of the credit delivery mechanisms and the second, of course, as I mentioned, setting up the credit monitoring centers.
- Moderator: Thank you. The next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.
- Chinmay Nema: Good morning, sir. Hope I am audible.
- Moderator: Yes, sir you are.
- Chinmay Nema: Yes. Sir just wanted some color on the large ticket size lending that we are into. So, last year around this quarter we had some large slippages due to some of the larger loans that we have given. Just want to understand what is the lumpiness in the current book and what are the segments that we operate in larger ticket sizes and where do you see this book going?
- Salee Nair: No, I think as I was mentioning, we did have a not so good experience of the large book size earlier. And we have been consciously bearing that down. And it currently stands at just about 8% of the total book. And we are not getting into any of the large segments or the corporate at all at the moment. And we will get our house in order before we look at changing the mix of our portfolio and we would certainly maintain the 90% at the retail, agri and MSME space. And we may not be looking at doing the corporate book in any significant manner going forward.
- Chinmay Nema: So, are we actively running down that book or are we limiting our exposure to whatever relations we have right now?
- Salee Nair: We are maintaining to the existing relations, yes. But we will also see whether we can continue to have an 8% to 10% of corporate book. As the book expands and we would certainly keep like I said, it's not the focus at the moment, but as the book expands, we will be looking at some of

the corporate book going forward. But the ticket sizes would not be something that will shake the market.

Chinmay Nema: Sir, would it be possible for you to call out the average ticket size in this segment?

Salee Nair: Do we have that number. I don't have the number right away. I can furnish it to you, but it's not very significant. Like I said, it's just about 8% and within that, the large industry is about INR980 crores. It's not very significant at all.

Chinmay Nema: Okay, sir. Thank you. I'll call back.

Moderator: Thank you. The next question is from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra: Hello. Thank you for the opportunity, sir. And congratulations on a good set of numbers. So, I just wanted to ask two questions with regards on the corporate governance side. So, there's been some instability in the bank in terms of the MD and the Chairman for the past two years. Now, we are happy that you've joined, and we hope you continue, but the bank is still without a Chairman. So by when do you think we can resolve that, and the second question was also with regards to the disputed shareholding. And when can we expect a resolution for that and what is the contingent liability or any liability that you recognize or have done due to that? Thank you.

Salee Nair: The first one, of course, we hope to have the Chairman in place by May of next year. And I think that's something that we have also written to the Reserve Bank. And we'll have it in place. I think the name would be known by the first week, first quarter and of course, there is an approval process by the Reserve Bank. In any case, by May next year this bank would have a Chairman. That's the first one. On the disputed shares, second question, I think it'd be interesting if you can give me an answer yourself, because your guess is as good as mine.

Anant Mundra: Okay. But, sir, any contingent liability that you recognize because of that or anything that we've quantified?

Salee Nair: How is the bank involved in this? It is between the transferor and the transferee.

Anant Mundra: Right, but probably because it was enabled by the bank.

Salee Nair: Shareholders.

Anant Mundra: I don't know. Okay. All right. What is the bank do?

Salee Nair: We don't have anything on that.

Vincent Devassy: There is no liability on the part of the bank. It is a dispute between the transferor and transferee. Bank is not a party to that.

Anant Mundra: Okay. All right. Thank you, sir. Thanks for the clarification.

Moderator: Thank you. The next follow-up question is from the line of Lakshmi Narayanan from Tunga Investments. Please go ahead.

Lakshmi Narayanan: Sir last year in Q2, we recognized one account as a non-performing account. Just want to understand what has been the resolution on that, because that is sizable, if that was actually a little shade more or less than INR100 crores. What has been the activity there and how are we placed because we are supposed to recover it completely. Just your thoughts, sir?

Salee Nair: Yes, I think it has not been resolved as yet, that much I can tell you, but it is at one stage and let me also tell you that we have provided 90% and when the resolution happens, we are going to see a substantial write-back of the profits. And the resolution is going to happen I think in the next one or two quarters. It is going to happen; we will have it resolved. I think the discussions are on to ways to look at resolving it. And I think one of the other banks involved has already seems to have settled it. So the solution is in sight.

Moderator: Thank you. The next follow-up question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead. Mr. Saket, I would request you to...

Saket Kapoor: Yes, ma'am. Thank you, sir, for this follow-up. Sir, as you can yourself understand in the call that your investor, analyst community are not very well fed with the understanding of the bank and the continuity of the profitability also. That is the reason why even having, as you alluded to the PAT of the highest NIMs in the industry, highest ROA, the market value, or the market cap, we are not even trading one-time book. So there is definitely some disconnect between the investing community and the management who are managing the day affairs or the business of the bank.

And that gap needs to be bridged with the right feedback and more engagement with the stakeholders. Otherwise, as you alluded in your press release about creating value for your stakeholders, the value creation process is all based on the trust and the probability of the bank delivering on the set of numbers as guided by you and your team. So this gap needs to be filled, sir, and that could be done only by you and the people by displaying what you people are currently speaking and better engagement with your stakeholders.

This was my first brief understanding, sir. And the employee card...

Salee Nair: Yes, I absolutely agree with you. I completely agree with you. And over the next quarters, you will see more of engagement between this bank and the investor community. We will certainly ensure that happens.

We will also look at periodically giving you a peek into what we are doing and the kind of numbers. We will also give you enhanced transparency in the numbers. All that we will do. Of course, I've never understood why the bank is actually trading below one. Because if you look at the profitability, it has been delivering quarter on quarter in a very steady manner. But going forward, I think we would be looking to strengthen the confidence of the investing community in this bank, which I understand is only by through engagement, periodical and continuous engagement, and also in providing you the numbers that you would like to base your judgment on. So I think we will do that going forward.

Moderator: Thank you.

Salee Nair: There were issues in the bank of... Okay, sorry. I think that's fine. Yes.

Moderator: Thank you. The next follow-up question is from the line of Vinith Jain from Siddhi Capital. Please go ahead.

Vinith Jain: Thank you for the opportunity. My question has been answered and I wish you the best, sir.

Moderator: Thank you.

Salee Nair: Thank you. Thank you.

Moderator: The next follow-up question is from the line of Anil from Contrarian Value Edge. Please go ahead.

Anil: Yes, thank you for the follow-up. So in the past, we have some problems with the RBI on various things. So what are we going forward so that these problems don't arise again? So that's the last question from my side.

Salee Nair: Thank you. We wish to be a completely compliant bank. And when you are on that, I don't think there'll be an issue with the RBI at all.

Anil: Okay, thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Nair, Managing Director of TMB for closing comments.

Salee Nair: Thank you very much for the participation. And as the gentleman said at the end, one of the ways in which we intend to bring the confidence back by the existing community into TMB is through

repeated interactions and engagement with the investing community, which is something that we will continue. I think that we'll take that as a feedback, and we will certainly continue.

As I mentioned, we are engaged in a significant transformation of the bank and transformation is not something that happens in a quarter or overnight. So this will take time. And the results of which will start showing up over the next, after a couple of quarters, certainly in the next year, we are going to see a significant impact of the changes or the structural changes that we are carrying out, both in terms of business growth, as well as in terms of the profitability numbers.

And rest assured, the changes that we are bringing and what the profitability numbers and the through the engagement with the investing community, we will certainly pass on the information in the right amount so that you can take a proper call on Tamilnad Mercantile Bank. Thank you. Thank you, everyone.

Moderator:

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

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