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01.11.2023

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

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 you that the transcript of the earnings conference call hosted by the Tamilnad Mercantile Bank Limited on Unaudited Financial Results of the Bank for the quarter and half year ended September 30, 2023, has been made available on the Bank's website at the following link:

<https://tmb.in/pages/Financial-Results>

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

Yours faithfully,

For Tamilnad Mercantile Bank Limited



Prakash Chandra Panda

Company Secretary and Compliance Officer

Membership No: ACS 22585



Tamilnad Mercantile Bank Limited

Q2 - FY 2023-24 Earnings Conference Call

October 27, 2023

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

Moderator: Ladies and gentlemen, good day and welcome to Tamilnad Mercantile Bank Limited Q2 and H1 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touch-tone phone. Please note that this conference is being recorded.

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

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

S Krishnan: Thank you. Good evening to everyone. At the outset, my sincere thanks to all my analyst friends who have joined this call at this time. I'm happy to share with you that today the Board of the Bank met and adopted the unaudited, reviewed financial results for the quarter and the half year ended September 2023. The performance of the bank, the results of the bank and also the presentation has been uploaded in the sites of both the stock exchanges and also the bank website. I'm sure that my analyst friends might have gone through.

In spite of the same, I will just make a very brief presentation on the performance due to the paucity of time. But at the same time, at the cost of repetition, I thought I can tell you that the total business of the bank grew by 9%, while the deposits grew by 10% and the advances grew by 8% year on year.

The net worth has increased to INR 7,384 crores from INR 6,461 crores. Book value of the share has increased to 466 from 408. All these are year on year what I said. The net profit has moved to INR 274 crores for the quarter ended September 2023 against the net profit of INR 262 crores a year back. Incidentally, the sequential quarter net profit was also almost on the same range of INR 261 crores.

One good thing which can be noticed is that the RAM segment of the advances portfolio, you might have been observing that the bank has been continuously focusing on the RAM segment and the RAM segment of the portfolio has now touched 91%.

The gross NPA of the bank is at 1.7, which was incidentally at the same level a year back. However, it has increased from 1.56 as on June 23. So also the net NPA has reached a level of 0.99 as on 30th September from 0.66 the last quarter. Having touched the NPA, I should also touch upon the SMA, which is a potential NPA for tomorrow.

The SMA has come down substantially. The total SMA of the bank as on 30th September is 5.59%, which was 12.42% a year back. And as on June, just the previous quarter, the SMA book was 7.16%. The slippage ratio has gone up during this quarter to 0.82 because of two high value accounts which have slipped. The total slippage during the quarter is INR 309 crores.

The credit cost has also gone up because of the same. The bank has made a provision of around INR 78 crores for the NPA. The credit cost has gone up during the quarter to 0.86. However, the half-year credit cost continues to be around 0.65 for the

half-year. That is how it is. The yield on advances have increased to 10.19% from 9.82% a quarter before, and it was 9.36% a year before.

The cost of deposits, all of you will be aware that there is a heavy pressure on the cost of deposits, which is increasing, and TMB is not an exception. The cost of deposits of the TMB has increased to 5.78% from 5.52%. Despite the increase in cost of deposits with the yield and advances increasing, the NIM has moved up from 4% to 4.1% as on 30th of September when compared with just three months before that is the 30th of June, 2023.

As I said, the RAM-segment continues to be strong and SMA has come down. With these things, I hope that in the coming years, the quality will be strong. We do not expect much of the slippages. As I told you during my interaction in the last quarter, the guidance what we gave, we stand by that guidance. The business growth, we gave a guidance of about 12% to 15%.

The trend of the bank, when we look at the second half of the year, it always contributes more. With that, I am sure that we will be able to achieve the guidance what we gave. Similarly, the gross NPA, which we gave less than two, we will be continuing.

The net NPA less than one, we will be continuing. I am also happy to tell that the ROA and ROE has also gone up during this quarter. The ROA has gone to 1.89 against 1.85 a quarter back. Similarly, the ROE has gone to 15.01 against 14.80. The guidance what we gave was ROA will be 1.75 to 2, we will be able to maintain. The ROE, we said about 15%, which we are having about 15.01% as on 30th of September. So, we will be able to continue those things.

So, this is in very brief because I know that all of you might have gone through the presentation and I will be more than happy to interact with you for any clarifications or additional information that you need, we will be more than happy to provide you. Thank you.

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

Lakshminarayanan: Sir, a couple of things. When you actually started the year, we are six months down, right? Can you just call out the areas where things have exceeded your expectations? I mean, I think the senior management expectations and things where it was below expectations and things where you could have done better, right? So, any thoughts on that? It will be helpful to hear from you.

S Krishnan: Sure. If I have to say that for the first half year, I can say that by and large we were able to. Except yes, during the first half year, particularly during this quarter, there was a little higher slippage for me. That is one. That again, the industry is like that. The second one is that the MSME growth, we need to push, for which we are taking all the steps. So, and we hope that we will be able to increase the same in the next quarter, second half. That is what I have to say in a broader sense.

Lakshminarayanan: Correct. So, broadly, are we tracking what we thought we would achieve in the first six months or are we lagging in terms of your own internal estimates and how you thought the year would pan out?

S Krishnan: By and large, we are meeting with what internally we had because normally the growth, that is what initial brief which I gave also, that the performance of the bank is

normally more in the second half of the year. I mean, now we have achieved about 9% or so, the growth, business growth, which I gave the guidance of 12% to 15%. And with the past experience, what we observe is that the second half normally contributes more than the first half. With that, we are hopeful that we will be able to achieve the business targets, what we gave the guidance to the streams.

Lakshminarayanan: Correct. And in terms of your operating expenditure, there has been an increase on a year-on-year basis, right? What actually led to the increase in operating expenses? Is it like a one-off thing or what should we think about it?

S Krishnan: The operating expenditure has gone up basically because, one, we have also provided for the increase in the employee cost for the wage revision. We have made a provision for that. And the second is when we compare with the year-on-year, we migrated to finacle 10 in the last year, somewhere in the month of August 22.

So, if you look into the last year, the half year, I had the depreciation only for about one and a half months or so, whereas this first half, this year, I have the depreciation for the full year. That is one of the reasons. So, these are the major two things which I can immediately tell that which led for the increase.

Lakshminarayanan: Got it. And lastly, in terms of the MSME, if you break it down into micro, medium, and small segments, can you just give me some indication of what has been the growth across these segments in terms of MSME?

S Krishnan: One minute, I will give you. The micro has grown by 7.43% year-on-year. The medium has grown by 3.8% and small, there is a degrowth of 7.83%. Overall, the year-on-year growth is 3.49%.

Lakshminarayanan: One last thing, in terms of your branch opening, the target which you actually set out at the start of the year, I think you wanted to open 35 branches or something? I mean, I don't have the numbers. How are we faring in terms of the first six months?

S Krishnan: Okay. We plan to have about 50 branches during the current year. We have opened 11 branches in the first half. Another about six to seven branches we have opened during the month of October. So, it is going as per the plan. We are hopeful that we will be able to complete the 50 branches.

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

Saket Kapoor: Namaskar, sir. Thank you for this opportunity. So, when we look at our first half performance, the operating profit is more or less flat if we take the depreciation into impact on a like-to-like basis. So, other than this, your understanding is that we would be able to grow the operating profit higher than it would be in H1 versus H2? This is the understanding you are trying to... the message you are trying to give to us?

S Krishnan: Yes. See, the operating profit, as you rightly observed, if you look into, it will look as flat, particularly keeping in mind the market also, which we game for this quarter. And this will go up because once I'm able to -- the second half, the business will grow. This is the trend, the advances growth is expected to be more. The overall, if I have to achieve 12% to 15% on year-on-year, where I have a shortfall of around 3% in the first half, which also needs to be made up in the second half. Naturally, in the second half, the performance will be far better, which will improve the operating profit than what it is today.

- Saket Kapoor:** You mentioned about mark-to-market. Can you dwell more on the same? What are you trying to convey?
- S Krishnan:** In this quarter, 30th of September, around INR11 crores, we have provided for mark-to-market for my treasury bonds, government bonds.
- Saket Kapoor:** Okay. So, I think post-September also, there is further hardening of the yields, as we see the 10-year benchmark closer to 7.4. So, there will be more likely of other mark-to-market on the government bonds going, if they remain at this level?
- S Krishnan:** We have cushion for further increase. So, I don't expect much to be impacted. But this one, depends on the market, which we need to wait and watch. I hope that with the outlook, that I have is that it will try to, it will soften before the end of this quarter.
- Saket Kapoor:** Okay. And, sir, if we look at your cost-to-income ratio, that has been on a strong uptick. It was sometime in last year, it was around 40%, lower than 41%. That has now shot up to closer to 47%. So, what should be the cost-to-income going ahead? What should be the new normal? Because I think the repricing of the deposits and all has resulted into the same. What is the key reason?
- S Krishnan:** See, let me tell the cost-to-income ratio has got two components, both the cost and also the income. As far as the income is concerned, the other income, as I was telling you that this quarter, we had a provision for the mark-to-market, which is basically factored in the other income as per the accounting standards permitted by the Reserve Bank of India. So, that has hit my denominator, which has brought down.
- Second is the recovery from the return of accounts was also a little lower, but I can say that the Q3 is expected to be more because already in the first 25 days, we have got a good recovery in the return of accounts, which will improve for the Q3. So, the denominator is expected to go up. As far as the cost is concerned, as I was telling that, the cost has increased, one, as you were also telling is the cost of deposits.
- Second is the employee cost. And third, if we compare with the year-on-year of the previous, half year, then the depreciation on my IT assets also has gone up. But having said this, with the expected increase in the income, which I'm going to have, and I do not expect the deposit or the other costs to go up because what I have today is this one.
- And we, in fact, tried with the high cost for a very short period with excellent opportunity management. So, I don't expect that it will further go up for me. It will be almost static, unless and otherwise, the market moves differently. So, with these things, I expect that the cost-to-income ratio will come down. The expectation for me is around 44% for this year.
- Saket Kapoor:** Sir, depreciation, you are happening. Can you give the absolute numbers on like-to-like basis? What was the depreciation number for the IT asset for the small part of last year, and what should be the annual number for this year?
- S Krishnan:** I will give you. Yes, my CFO is here. Yes, sir.
- Saket Kapoor:** And then if we move to your slide number 14, no, slide number 15, there if you could explain to me the movement of the NPA, wherein we have written off INR158 crores and there is a fresh addition of INR309 crores. These are the highest numbers if we take any competitive number for any quarters. So, if you could explain the nature and the reason of this?

- S Krishnan:** As far as the write-off is concerned, normally, every year, I mean, you know that the banks will be writing off where it has 100% provision, and which we had a 75% provision, we have written off this quarter, which is about INR157 crores. All the 100% provided accounts have been written off.
- As far as the INR309 crores is concerned, about a few of the accounts, 4 to 5 accounts have contributed to this, and out of that, the major accounts are in the cotton and textiles, where the industry is bleeding. So, that is the reason why it has gone to INR309 crores. We expect a recovery or upgradation of some of these accounts itself during this Q3, by which we will be able to improve the position.
- Saket Kapoor:** And for the upgradation, sir, for a year as a whole, what are the numbers we are currently looking into? What should be the annual number in terms of the upgradation? This quarter it is INR20 crores, and quarter 1 was INR5 crores?
- S Krishnan:** Yes, I will give this subsequently, exact number, because what happens is, this quarter, what slippage we had was not initially increased, but now all the recovery measures have been taken, so I will give you the updated upgradation numbers in the due course. However, we maintain that our gross NPA will be maintained below two.
- Saket Kapoor:** Right, so there was some change in the RBI norms pertaining to the unsecured loan also, and some thinking was there for the small and medium accounts also. So what could be the likely impacts going ahead?
- S Krishnan:** What is now is only the reports which are available in the media. RBI is yet to come out with the guidelines. But what is expected is, RBI is more concerned on the unsecured, which you also rightly said. We are more concerned with the unsecured credit. I have to say that the unsecured credit of the bank as a whole itself is just about 1% or so, not much. We don't have much of the unsecured. So this is the bank which has got full collateral and other things. So this will not have impact on TMB.
- Saket Kapoor:** Right, sir. A small point on the unsecured part. We heard a leading bank today in their media interaction that they have even provided unsecured loans to the salary account holders only, so that they have the cash flow matched to in case of any delinquency. So how have we secured ourselves even in this unsecured portfolio? What safety nets have we created in case of any fallout going ahead, even if it is 1% of the total book?
- S Krishnan:** No, what I am telling is unsecured for me is very, very miniscule. And we are ring-fencing the cash flows wherever it is possible. We are ring-fencing the cash flows. So we don't expect anything. RBI expects that they may come out with an additional risk rate for this. That is what I expect when they come.
- As the total quantum of my unsecured is not very material, I don't expect that it will have impact on us. As far as the recovery is concerned of those assets, like any other asset, we are continuously following up. Wherever it is, we ring-fence the cash flow. You can very well see that my SMA has come down substantially from 12% and odd to 5.5% in this quarter. So that itself demonstrates that we are able to contain the slippages except for few of the accounts which had problems because of the industry.
- Saket Kapoor:** No, sir was giving me the depreciation number. Only the depreciation number I am coming in the queue. You please come up with that depreciation number on the IT assets and I will join the queue.
- Moderator:** Yes, sir. Thank you. Our next question is from the line of Aniket Redkar, who is an investor. Please go ahead.

- Aniket Redkar:** So, sir, I have a few questions. So, my first question is basically, what measures bank is basically taking to guarantee enough liquidity in the event of this unforeseen difficulty? And how we are managing this liquidity position currently?
- S Krishnan:** See, we do not face any liquidity position. We have surplus SLR. So, we don't have any such liquidity problem with us.
- Aniket Redkar:** Okay. Okay. And, sir, in the light of this most recent incident, which cost us around INR 9,000 crores. So, how is the bank protecting this customer privacy and mitigating this cybersecurity risk?
- S Krishnan:** Okay. This has, let me say that, this has nothing to do with the cyber security. What happened has nothing to do with the cyber security. It was a technical glitch because of which this wrong credit has come. Now, what we have done is, we have done a root cause analysis as to what and how it went wrong. And we have plugged all those things, put in place a system that it doesn't recur anymore. Proper checks and balances additionally have been put in place.
- So, we hope that this will not recur. So, this is what we are protecting the customers. And the reconciliation team was so sound and robust that within 15 minutes, we could be able to immediately identify and take actions to reverse the amount.
- Aniket Redkar:** Okay. And, sir, can you throw some light on this digitization, this thing that in terms of this technology related project that we are taking to improve our customer satisfaction and operation effectiveness?
- S Krishnan:** Okay. See, what we are doing is, as far as the digital front is concerned, the bank has almost all the digital products for a normal day-to-day operation, be it by way of mobile, be it by way of net banking and the UPI, all those things, and UPI Lite also we are in. In addition to that, now what we are doing is that, we are enhancing the features available in the mobile banking.
- Second, I am also trying to work out on the digital platform for my customers who wants to avail their credit facilities end-to-end. To begin with, we are working for the MSME sector on the one hand. On the other hand, for the retail, we have already digitized for products like the home loan, where it is having a digital journey, but the customer interface is yet to be given for that. MSME, very shortly we will be giving for customers who wants a digital journey, they can have. They can also have the assisted journey. That is what we propose.
- We have entered into an MOU with one of the renowned technology, provide fintech, who is providing these things. We expect that in a couple of months, we will be able to make available these services to our customers. They will have the delight and comfort of banking from the place where they need. The mobile banking also, we now both on the mobile banking and net banking, we also now take for opening of the accounts, I mean deposits, and also availing the loan against that. These are some of the features which we propose to give very shortly.
- Aniket Redkar:** Okay. Can you give the future outlook about the bank for the full year?
- S Krishnan:** Future outlook of the bank for the full year is, as I said, the guidance which we give, we stand by that. The business growth will be around 12% to 15%. The NIM will be above 4%, which we demonstrate. The ROA will be from 1.75% to 2%. The ROE will be above 15%. The gross NPA will be less than 2%. Net NPA will be less than 1%. And the cost to income ratio, I expect around 44%. This is what we expect. The slippage ratio will be less than 1%.

- Aniket Redkar:** Okay. And what is our stress asset ratio currently?
- S Krishnan:** Pardon?
- Aniket Redkar:** What is our stress asset ratio?
- S Krishnan:** Your voice is not very clear. Can you repeat?
- Aniket Redkar:** Stress asset ratio, sir?
- S Krishnan:** You are asking about CD ratio, credit deposit ratio, or you are asking about the capital adequacy?
- Aniket Redkar:** Yes.
- S Krishnan:** Capital adequacy is around 26% for me. And the CET1 is around 23%.
- Aniket Redkar:** Okay, sir. Thank you. That's all from my side.
- S Krishnan:** CET1 is 24% and overall CRAR is 26%.
- Aniket Redkar:** Okay. Got it. Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Nihal Mehta, who is an investor. Please go ahead.
- Nihal Mehta:** In terms of your company's revenue, could you highlight on some of the important growth drivers? I have noticed some changes in terms of your profit margins also. So, could you highlight on that part?
- S Krishnan:** No, my -- what I expect is that, if you look into the growth in advances, we have grown, as I said, in the RAM segment. And amongst the RAM segment, if I look into, we are growing more on the gold loan, which is fully secured and have a zero capital. So, we expect that we will be... it has a good potential, particularly in the area where we have more concentration. So, we will be able to do that.
- And we have also taken up a transformation project on the MSME, which I told in the last meeting when I met. The -- that is taking a good shape. We have set up the MSME hubs at about 14 places, right? Eight places. We have set up at eight places, the MSME hubs, where we have posted a very experienced seasoned officer as the executive as the in-charge. And we have also posted the relationship managers and the credit analyst. Thereby, I will be able to reduce that task.
- On the other hand, as I was telling just before, that we are also working on digitizing the lending platform, which will bring the underwriting standards uniformly and also ensure that the underwriting is not compromised. Because now, I have segregated the branch, which is a delivery point from the underwriting. It is centralized for these MSMEs.
- So, this will ensure my quality of underwriting and which will result in ensuring the asset quality over the period of time. So, these are some of the drivers which will help the bank to improve the income in the days to come.
- Nihal Mehta:** Okay, sir. Recently, I also read a news article about the INR 9,000 crores mismanagement that happened. The money was transferred to somebody else's

account. So, how are you ensuring that, in terms of data privacy and any such kind of relevant risk, which should not happen in the future? So, are you taking any steps?

S Krishnan: Fine. Just now I answered this question, but still I will repeat it. This has nothing to do with cyber security or data leakage. So, it does not relate to any of these things. The question of data privacy doesn't arise here. This was a technical glitch because of which, wrongly, the amount was credited.

As I was telling, my reconciliation team is very, very robust and they are very alert, which they have detected this within a shortest span of 15 minutes and we could be able to reverse the thing. Having said that, we have done a thorough root cause analysis of this incident and we have further, increased the control mechanism. We have plugged in our codes so that these type of mistakes doesn't recur again. That is what I have to say.

Nihal Mehta: Okay, sir. Thank you. Thank you for that. And a last question from me. In terms of rate of deposits and loans during the quarter, do you see any, could you highlight, how it has grown over the period?

S Krishnan: The cost of deposits in the industry, if you look into, is moving northwards. There is heavy pressure on the liquidity. Somebody was asking about the liquidity, either you or before you. Because of that, there is increase in cost of deposits. We cannot be an outlier, so our cost of deposits also is increasing. No doubt on that.

But having said, we are able to demonstrate that, we are able to increase, realize the yield on advances proportionately, which is demonstrated, which is very visible from the fact that my NIM, Net Interest Margin, has increased during the quarter by 10 bps from 4% to 4.10%. So we are able to pass on this increase.

Moderator: Thank you. Our next question is from the line of Supan Parikh, who is an investor. Please go ahead.

Supan Parikh: Hi, actually I have seen you have opened new branches in the month of October, like six new branches and overall around 19 branches over the period of nine months. So I just wanted to know, what was the total revenue generated from these new branches?

S Krishnan: See, these branches will take little time to stabilize and also the break even. In fact, if you look into the banking, a branch, if it is able to break even in a period of about two years, is a very good sign and I expect that, we will be able to do that. I can share with you, I don't have right now the revenue generated by these branches, but I can tell that the CD ratio of these branches are very good, indicating that the advances are higher than the deposit.

I have branches whose CD ratio is as high as 200-plus. So these branches will be generating a good income to me. And most of these branches are lending on a very secured manner, either by way of the gold jewel loan or by way of home loan, fully secured. As I was telling that the bank's total unsecured itself is very low. So these branches, I expect that they will be able to contribute reasonably good, even in the first year of the operation.

Supan Parikh: Okay, sir. And also I want to know like how many new branches are you like expecting in this fiscal year, by the end of the fiscal year?

S Krishnan: Yes. I plan to open during this year, overall 50 branches.

- Supan Parikh:** Okay, then we can have almost like 19 till now?
- S Krishnan:** Yes.
- Supan Parikh:** Okay. Thank you.
- Moderator:** Thank you. Our next question is a follow-up question from the line of Mr. Saket Kapoor from Kapoor and Co. Please go ahead.
- Saket Kapoor:** Yes, sir. Thank you for the opportunity again, sir. If you could provide them now the depreciation numbers, if you are ready with you? And again, sir, coming to the granular details of the growth, which we are anticipating for H2, which sectors will be contributing towards the incremental business and incremental, therefore, the interest income going ahead. As the H2 must be much higher than what H1, then only we can grow at 15%.
- S Krishnan:** Yes, you are right. My focus for the growth in the H2 will continue to be on the RAM segment. The MSME is expected to pick-up. The MSME growth in the first half was less. MSME is expected to pick-up. Even the industry as a whole, there is an uptick in the credit uptake for the MSME. So, we will be able to capitalize that. As I was telling that the BPR, Business Process Re-Engineering 1, which we have taken a project, which is taking a good shape. So, that is expected to yield a good result for me.
- I will be also continuing to focus on the retail. When I say the retail, it includes the gold jewel loan, both in terms of agriculture and also the non-agriculture and the home loans. These are the focus areas where I will be focusing, which will be enabling me to achieve the targets which we have imposed on ourselves for the current fiscal. As far as the depreciation is concerned, I will give you one minute.
- Saket Kapoor:** And sir, also please provide us a ballpark number on the dispersed of loans that is anticipated for H2 in comparison to what H1 has been? The loan dispersed?
- S Krishnan:** Yes, I mean, loan dispersal. One minute. I don't know whether I have it now. Otherwise, I will request -- expected disbursal.
- Management:** This depreciation on the IT is around INR6 crores.
- Saket Kapoor:** INR6 crores. Okay, that's not a big number.
- Management:** Yes.
- Saket Kapoor:** On the disbursal part. And sir, when you were explaining us, rather giving us a number on ROA and ROE and NIM, I think so, last year, you did caution us that the ROA of 2% were extraordinary numbers and we will be settling somewhere lower. We exited Q2 at 1.89. So, for the next half, we will be lower at 1.5 to 1.72?
- S Krishnan:** No. Definitely not. Our ROA, still I maintain that for the year. We will be having 1.75 to 2. And we will be able to do that.
- Saket Kapoor:** Sir, first half is above 1.85.
- S Krishnan:** Yes. So, definitely we will go to 2. We give a range of 1.75 to 2. Doesn't mean that we will come down.
- Saket Kapoor:** Right. And for the NIMs also, it will be northward of 4%?

- S Krishnan:** It will be above 4. We said above 4, we will maintain that.
- Saket Kapoor:** Okay. And sir, about the slippage part, sir, what portion of our loan book is towards the corporate sector, sir? And you spoke about one account in the textile segment slippage? So what is the slippage...
- S Krishnan:** Total corporate today is just 9%.
- Saket Kapoor:** Okay. Absolute number, sir, of the loan book amount?
- S Krishnan:** Yes, around INR3,000 crores.
- Saket Kapoor:** Okay. And then the key sectors where the same dispersion is?
- S Krishnan:** Pardon?
- Saket Kapoor:** Which are the key sectors to whom the loans have been disbursed? The 3,000 crores?
- S Krishnan:** No, no. INR3,000 crores is spread across different sectors. So, I don't expect much of on that. If I look into the SMA book, which will give, SMA, I have total SMA in corporate is just INR230 crores.
- Saket Kapoor:** Okay. And no, sir, you spoke about one textile account for this quarter. What was the total...
- S Krishnan:** About three to four accounts, not one account. One account is a bigger one. And others are relatively bigger, but lesser than that. So, they are all in quarter 1. That's what hit me this quarter for the higher slippage.
- Saket Kapoor:** Okay. And we are fully provided for them, for these accounts?
- S Krishnan:** No, we have provided as per the regulatory requirements. In fact, my provision is little more than the regulatory requirement.
- Saket Kapoor:** Okay. And these are all certain...
- S Krishnan:** So, secured substandard, 15% is sufficient as per the regulatory requirement. I have provided 25%.
- Saket Kapoor:** You have provided for 25%?
- S Krishnan:** Yes.
- Saket Kapoor:** Okay. And these are all Southern based yarn companies? Can you give more granular details? Because I think so, these accounts may fall out also going ahead since the textile market is still in doldrums?
- S Krishnan:** No, these slipped accounts are spread. One major is in the Southern and one is in the Western side. Like that.
- Saket Kapoor:** Okay, thank you for all the replies, sir. So, we can summarize that H2 will look better in terms of profitability for the bank as a whole. We are in the quoting, we are likelihood -- in the likelihood of posting a higher operating profit for the second half going ahead.

- S Krishnan:** Absolutely.
- Saket Kapoor:** And thereby, this last year number of INR1,573 crores operating profit, we are looking at a growth number higher than that of last year.
- S Krishnan:** Yes.
- Saket Kapoor:** That is in the likelihood of 10%. We can look forward the growth in the operating profit?
- S Krishnan:** Yes.
- Saket Kapoor:** A 10% growth in the operating profit for the year as a whole?
- S Krishnan:** Yes.
- Saket Kapoor:** Okay, even after factoring in the flat number for H1? So, we have to grow higher than 10, then only we will be maturing?
- S Krishnan:** Absolutely. So, when my business also grows higher than H1, naturally the operating profit also will grow.
- Saket Kapoor:** Right, sir. And for the dividend distribution parts, sir, what is the dividend distribution policy? If it is a coded one, then I will go through it?
- S Krishnan:** No, we follow the RBI guidelines as to the dividend distribution. So, we don't have anything other than that.
- Saket Kapoor:** Okay, sir. And for any other than that, shareholder valuation, because we are a very new bank, new listed bank in the space. And currently at a book value of around INR462, the banking space offers, there are other players also that are offering better valuation. So, what steps are in the anvil? How can we create further value for your existing shareholders also and for the shareholders who can become shareholders going ahead?
- Moderator:** Sorry to interrupt, Mr. Saket Kapoor. We request you to re-join the queue.
- Saket Kapoor:** Yes, I have completed my question. It is up to sir to answer. Thanks. I hope I made my point, sir. Now, please reply.
- S Krishnan:** Yes, I have noted.
- Saket Kapoor:** Yes, any comment you want to give, sir?
- S Krishnan:** No, see, if you look into as far as enhancing the value of the shareholders is concerned, if you look into this, the bank which is consistently paying the dividend, because why I am touching the dividend is that was also touched by you about the dividend policy. If you look into the history of the bank, it's the bank which has paid the dividend every year, except one year where the Reserve Bank of India, stopped all the banks in making their payment of dividend. But for that, the history shows that the bank has been consistently taking care of the shareholders, has been paying the dividend.
- And if you look into the net profit, the profit earned by the bank every year, which ultimately goes to the net worth of the bank, nothing other than the shareholders' fund, which is continuously increasing. And if you look into the strength of the bank on the

balance sheet side, I have to say that the asset is highly distributed with less vulnerability for any shocks, which we will not be having. In addition to that, we also have the additional provision of around INR250 crores as of 30th of September towards any contingencies which can come. So when the COVID came, we started creating that. So today we have around INR250 crores as a provision for this.

Moderator: Our next question is a follow-up question from the line of Mr. Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Sir, if you look at the outside RAM, there has been a decline in the non-RAM, right? Was it a -- why it declined? Is it because we have the lost customer or it was a conscious call to reduce the assets on that side?

S Krishnan: No. We have not lost the customers. But as I said, yes, we are very, relative in expanding the corporate. So we take a very conscious call and we pick-up a good rated and this one. We have not lost any customers, which I can tell, who had availed with us. They avail as and when they require. But as far as going into any consortium or anything, we are very, very particular choosy. That is the reason that the corporate credit has not been growing.

Lakshminarayanan: Sir, if you look at your broad growth numbers, how much actually comes from your existing customers and how much is coming from new customers or who are never banked with you? And how many customers you actually, you think you are losing to the competition or they're actually moving or have you done any analysis?

S Krishnan: So we have done, we have done the analysis as far as what we lose and also what we gain. It is true that we have been losing a little more-earlier, but these are times we are able to take over from others. Also, what we lose has come down. More particularly, this is, you know, that there is actually competition with which we are able to, I mean, the pricing is rationalized. So we are able to retain the customers. And what we...

Lakshminarayanan: How much of your growth is actually from your existing base? You are looking at 12% to 15% growth on advances side?

S Krishnan: No, we -- from the existing customers and the new customers, we'll be around 45, 55, like that.

Lakshminarayanan: Got it. So your new customers will be around 55% of your -- of the growth?

S Krishnan: Yes.

Lakshminarayanan: Got it. So in terms of the NPA addition of INR300 crores-plus, you mentioned something. Can you just repeat it? Because I just didn't capture that?

S Krishnan: No, INR300 crores, there is an addition because during this quarter, about four, five big accounts, I should say, of which one is around INR170 crores or something, approximately. And all these are belonging to the cotton and textiles, which the industry is doing bad because of that instant. But all these accounts are fully secured. We have been taking steps. I expect that there will be recovery or upgradation in this.

Lakshminarayanan: And this account, was is the first time they got into such issues or they have been, what has been the history of this account?

- S Krishnan:** No, they are banking with us for a long time. It is not a new customer. They are banking with us for a long time. And because of the industry problem, they could not absorb the shocks, which they, so the account returned to be NPA.
- Moderator:** Thank you. Our next question is from the line of Rohan Mehta, who is an investor. Please go ahead, sir.
- Rohan Mehta:** Some of the questions I had have been answered, but you touched upon earlier about the branches that have recently been opened and plans to open around 19 odd new branches in the future. So if you could just shed some light on if you have any regions in mind specifically where the new branches would be opened? And the management's vision over the next two to three years in terms of geographical reach of the bank across India. If you could shed some light on that, it would be helpful, sir?
- S Krishnan:** Okay. See, totally we plan to open about 50 branches during this fiscal. In fact, a similar question earlier also I have said, what I have said is the bank is looking into the potential centers where we will be able to get a good business and also spreading to the different geographies. But we make a thorough analysis of the potentials available, keeping in mind the philosophy of the bank, the strength of the bank, and then we go for the expansion.
- So that is all it is being done. We will be in the next two to three years, we expect that we will be having expanded reach in almost all the parts of the country. That way we will be able to make it as a pan-India bank.
- Rohan Mehta:** Okay, okay, sir. That's great to hear, sir. Sir, also, is there any strategy in place to keep NPA levels at as minimum as possible?
- S Krishnan:** Yes, the strategy is, I said we will be keeping the NPA number at below two, that is what the guidance I gave. We will be able to maintain that. We have a very strong monitoring team who are able to monitor on a day-to-day basis almost all the accounts, irrespective of their quantum. It has been distributed at the regional level and also the HO level.
- We hand-hold the branches. The officials at both the region and the HO, wherever needed, they even directly interact with the customers, understand the problem, and we are able to, with the close monitoring, we are able to arrest the slippages.
- Rohan Mehta:** And, sir, what would be the current stressed asset level ratio at present?
- S Krishnan:** One minute. I think I have given the stressed assets ratio in the presentation. I will just tell you. One minute. My stressed assets ratio stands at 3.23%.
- Rohan Mehta:** Okay, and it's likely to remain at similar levels for the entire?
- S Krishnan:** It will continue to be, or it may even come down because I don't expect much. So, if you look into the last three quarters, it is almost flat. It is around 3.19, 3.2, or 3.23. Like that, it is almost flat. Understood.
- Rohan Mehta:** Understood. Okay, sir. Just one last question, sir. If you could give your opinion on any regulatory developments that are expected that might impact the banking sector in general or our bank's operations in the near future?
- S Krishnan:** The regulatory, this one, against your question of, you said the expectations. The expectation is that there may be an increased risk rate for the unsecured loans. And,

as far as my bank is concerned, my unsecured portion is very, very minuscule. So, I don't have any impact. I don't expect any impact for my bank.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. S. Krishnan for closing comments.

S Krishnan: Thank you. Let me thank all my friends, the analysts, who took the pains of joining this conference call in the late evening. My special thanks to one and all. My special thanks to the arrangers who made it an excellent one. And, hope to meet you very quickly. Thank you very much. Thanks a lot.

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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