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Tamilnad Mercantile Bank Ltd
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30.04.2025

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Bandra (East), Mumbai - 400 051.

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

Ref: Symbol: TMB / Scrip Code: 543596

Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call – Q4 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 Audited Financial Results of the Bank for the quarter and financial year ended March 31, 2025, has been made available on the Bank's website at the following link:

Transcript of the Earnings Conference Call – Q4 Results

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

Kindly take the information on record.

Yours faithfully,
For Tamilnad Mercantile Bank Limited

SWAPNIL ASHOK YELGAONKAR
Digitally signed by SWAPNIL ASHOK YELGAONKAR
Date: 2025.04.30 13:01:53 +05'30'

Swapnil Yelgaonkar
Company Secretary & Compliance Officer

Tamilnad Mercantile Bank Limited

Q4 - FY 2024-25 Earnings Conference Call - Transcript

April 24, 2025

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

Mr. Vincent M.D, Executive Director

Mr. Sanjoy Kumar Goel, Chief Financial Officer

Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY25 Conference Call hosted by Tamilnad Mercantile Bank. This conference call may contain certain forward-looking statements based on the beliefs, opinions and expectations as on date of this call. These statements are not the guarantees of future performance and involve certain risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in 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 a star, then zero on your touch-tone phone.

Today on the call we have with us the following management representatives, Mr. Salee S. Nair, Managing Director, Mr. Vincent Menachery Devassy, Executive Director, Mr. Sanjoy Kumar Goel, Chief Financial Officer (CFO). I now hand the conference over to Mr. Salee S. Nair, Managing Director from Tamilnad Mercantile Bank. Thank you and over to you, sir.

Salee S Nair: Thank you. Thank you and thank you also for the introduction. Yes, I think we have come out with our results yesterday and as you would see that the results are in line with what we had stated earlier as well and some of the highlights I can go through before getting into the details. In this in FY25, we have delivered the highest ever net profit. If you go back in history, 103 years of the bank's existence, we have been delivering profit year-on-year except for six years in our journey.

So this year is another year where we have delivered a net profit of INR1,183 crores. That's a 10% plus growth year-on-year. We've also delivered an operating profit growth of INR1,746 crores, 18% up from the previous year and a total income which is 12% up from the previous year at INR6,142 crores. While these are the highest ever numbers, if you look at the GNPA, this is the lowest in the last 10 years.

At 1.2% GNPA, it is the lowest in the last 10 years. If I get into some of the details here, the total business has improved 9.58% to INR98,055 crores. If I get a bit of color on to this, then like I mentioned last time, the deposit will double by the year-end. It has, in fact, more than doubled. If you look at the 3.66% was the deposit growth in FY24, we really underperformed the market.

This year, FY24, the green shoots are very, very clearly not as visible. It is they're taking clear routes. The number is 8.43% year-on-year. We did that INR53,689 crores. So on the resource front, we are kind of getting back into the game. Even in the advances side, we have almost doubled what we did in FY24. 6.35% was in FY24. Now, we are just about 11% and going forward, we will align ourselves to the market.

We are beginning to be aligned to the market. And FY26, you will see that we are aligned to the market, perhaps even a tad better. So on the our portfolio itself, on the asset portfolio itself 93%

today stands at the ramp. 93%, this is up 91%. And that's one of the reasons why our stress levels are at the levels that I'm going to state as we go along. The total income, as I said, 11.82% up.

Then net profit, 10.35% up. The book value. The book value we share today is at, as on 31st March, is at INR569. That's a growth of 31.80. The CRAR, Capital Adequacy Ratio ratio, 32.71%. That is up 334 basis. So I think one of the perhaps in the industry. The SMA to growth advances, I didn't mention about the GNP that we have for the 10-year low.

Even the SMA is fairly good at 2.55%. So both the first level SMA and NPA together is just 3.80%. That's where we stand from a credit quality perspective. The stress asset ratio, that includes the restructure asset, is down to 2.01%. The gross NPA, as I said earlier, is down 19 basis to 1.25%. The net NPA is at 0.36%, down 49 basis. It's less than half.

And the ROA for the year is at 1.88% and I'm sure that we have proposed and the Board of Directors yesterday proposed a dividend of 110%, which of course will be subject to the AGM. So when I get into some more details, I did mention about 9.58% growth happening on this total business.

And the shareholder value and net worth is has crossed INR9,000 crores. It was INR7,921 crores. It is 13.74%. The book value per share, I just mentioned, INR568.90. And the earning per share, earning per share is INR74.68. I think it's also an all-time high.

So moving on to some of the parameters, net interest income is at INR2,301 crores. The operating profit, I mentioned earlier, INR1,746 crores and the PCR, when I look at the PCR, with technical write-off, that is the off-balance sheet provisioning, it is at 93.86%. But what is important is the PCR on book, it is at 71.02%.

In fact, we have more than met the RBI guidelines on this, where RBI was suggesting about 70%. 31st March 2025 it is at 71.02%. Nearly 30% up from the previous year. And the 524, it was only 41.33%. The PCR on book today is at 71.02%. Return on asset, I mentioned, is at 1.88. The return on equity is about 14%. Fed cost, 41 basis points. Cost of deposits has moved up in line with the market. It is at 5.91% up 17 basis points from 5.74%.

And yield on advances is at 10.22%, going a little slower than the deposits, from 10.15% up 7 basis points. The cost-to-income ratio, the efficiency of the running of the bank is down from 47% the previous year to 44.60% in FY25. So that's the cost-to-income ratio.

When I move on, give you some color on the asset quality. I think the asset quality that we are delivering in this, I understand, will be one of the best in the industry. NPA is at 1.25%. Net, NPA is 0.36%. And the slippage ratio is just 13 basis points. It's maintained that. In the last quarter also, it was 13 basis points. In the last quarter of FY25, it was 16 basis points. So you're seeing some improvement happening there. I think the 13 basis is really a three-year slippage that we are quite proud of.

When I also look at gold loan portfolio, I think because a significant amount of our portfolio is gold loan. The SMA in the gold loan portfolio is just 0.06%. We have an 18,000 plus gold loan portfolio. The SMA is just 0.06%. And the NPA is 0.01%. Let me also tell you that in FY25, we offered nearly 4,000 gold loans, jewel loans.

And we have not only recovered our principal and interest, we actually returned 1.46 crores back to the borrowers, which means we are giving the adequacy of the margin, evidencing the adequacy of the margin. And there was no portfolio loss on the gold loan portfolio. And I think that's a portfolio that we are watching very closely from the LTV perspective, from the commodity risk perspective, and monitor virtually on a day-to-day basis.

When I look at the movement of NPA, I did mention that we had a 1.25% GNPA. The gross NPA that we have is INR556 crores. And let me also tell you, it is not because of write-offs. Write-off was just 25.59%. It has been because of upgrades and cash recovery. In fact, cash recovery was 79.16 crores, and write-off, sorry, and upgradation was about INR10 crores. But almost 50 crores came from hard work that we have put in.

And it is more or less offset the first addition that happened. So the closing is at 556, that is down about 20 crores from the previous year. And like I said, the GNPA is at 1.25%. If the provision of 363.50 takes the net NPA to 160, that is 36 basis points. And like I said earlier, the PCR is at 71.02%.

Even in the SMA, as the SMA is a story that I would really like to say, because in FY25, the SMA or the overall SMA portfolio, which was at 3.97%, has come down to 2.55%. So that's not just the NPA. Even on the SMA side, the bank has got its act right, and we will continue maintaining it. And even looking at the sector-wide also, even in retail sector, we have about 1.3% of the growth. It's only retail, Agri, about 0.07%, MSMB 1.08%, and the others are 0.10%. Totalling to 2.55%.

SMA plus NPA, that is, one day past due, even one day regular. The portion of the portfolio that is one day regular is 3.80%. 3.80%, which means 96.20% has no irregularity whatsoever in the portfolio. I think that's the kind of quality of portfolio that TMB showcasing. The stress effect that the NPA has is down from 2.70% to 2.01%.

I think the presentation has already been uploaded. so I'll skip some of these aspects and come to something relevant from a quality of the portfolio perspective, which is the PCR and the collateral coverage. I think if somebody is referring to the presentation in slide number 31. We had, as I mentioned earlier, we have a 556 crores of GNPA.

That's 1.25% and 363.50 crores of provision. But let me tell you, the 566 crores of GNPA is covered by collateral of 104%. Which means the provision, when this gets resolved, when the GPNA gets resolved, we are looking to book this 300 crores plus or 350 crores plus of provision as a right path. That is a substantial piece of profit of this sort of figurative provisions.

On the growth itself, I did mention earlier that we have doubled. Current account and the CASA per se have been a worry for us.

And I will also tell you how we are trying to address that. Because we have lost about 300 basis plus on the CASA share, which has a bit of an impact on the name. But the initiative that we have taken in the last quarter, I think towards the end, has started bearing fruits.

And we saw some uptake happening towards the end of last quarter, the quarter of 2025. We have seen a growth of 2.94%. Deposits overall have grown 8.43%. I think total term deposits did contribute significantly to that. The 13.37% of the growth coming from the total term deposits, of GNPA course, compensating the CASA loss. But that's something that we will reverse. It's beginning to show some reversal. And I think that will be accelerated in the current year.

To reverse the CASA, we have taken a number of initiatives. I think last week I did mention that we are setting up a transaction banking group. We have in fact set that up in February and it has sort of started functioning. There's a significant number of managers that have been onboarded for this. I think they are in the market and we are beginning to see some signs of an uptick in the current accounts, particularly in the government accounts. And I'm sure that will get accelerated.

But I don't want to mention that CASA is going to be tackled. We also set up the Global NRI Center, which I stated that in the last call. That also has been set up. Again, towards the end of the quarter, last quarter. So we are going to see a significant result coming out of that. We have also taken an additional initiative to set up an elite services group to reinforce our high-network liability franchise customers, deposit customers. And not only reinforce them, also to look at building upon their relationship and also ramping up their network customer.

The other piece that we are looking at to ramp up the CASA is we are completely revamping the digital banking. We are bringing in an entirely new Internet banking. We have already signed the deal. And I think in a couple of quarters, I think the entire Internet banking space and the services that will be provided through the Internet banking is going to undergo a dramatic change there.

And on the advances portfolio, yes, 11% growth. Retail at 8.35%. MSME sector is flat. But let me tell you, the sector within the MSME that we are tackling, that's about 50 lakhs, has shown a decent growth of 12%. So the regrowth is happening in the unviable sector below 50 lakhs. And CD ratio, in Q4, as the deposit momentum picks up, CD ratio has also moderated which is at 82.64%.

There was one question on the unsecured exposure, bank's unsecured exposure in last December Analyst Call. Let me tell you that our total unsecured exposure is at INR160.60 crores. That is 0.36% of our portfolio is only unsecured. And if I look at the SMA, out of INR160 crores, INR7.70 crores, 4.79% is SMA and NPA is just 19 basis points.

And if I go a little deeper into the unsecured exposure, INR160.59 crores which I just said it. KCC contributed INR15.54 crores, INR28 crores came from education loan, INR41 crores from the others, INR75 crores came from PSU, which as you know that the quality is always accepted. So INR160 crores unsecured, so it's no worry in unsecured exposure at all.

And there was also a question on what is the exposure to the MFI? Let me tell you the MFI exposure, our total exposure to the MFI is just INR23.90 crores. That is just about 5 basis points of our portfolio.

I did mention about the last call, investor call, about carving out the credit from some of the branches and refocusing the branches on the deposits, strengthening the deposit franchise. And I think we have already started the pilot and our experience has been quite good.

We are I think pretty much almost completed the business rule engine, the loan origination system and the loan management system has been sourced. I think it'll take a couple of quarters before it comes fully on screen. And the lead tracking system, the customer experience in the lead tracking system has also been sourced and put in place.

And so a lot of IT initiatives that we have started in December and are going to January, February has come down and I think for this to kind of delivering results, I expect another couple of quarters. But meanwhile, I expect this bank to grow, our growth to be aligned with the market, like you mentioned, perhaps a chance higher than the market.

Apart from that, we have also taken human resource, I did give a color of that earlier, that the historic wage revision has been implemented in FY '25. That has today 81% of the staff component on the CTC, cost to company method. And we have also implemented a corporate management system, an automated capital management system, which apart from helping an end-to-end HR management also helps us to align the CTC pay, particularly the variable pay that the bank for. So we are slowly getting the ground force aligned to the profit motives of the bank.

And of course, we did open 26 branches. We put up a few branches on hold looking for perhaps a change in the location, etc. And in the current year in fact, in the current half year itself, we are looking to open about 50 or so branches. So that hopefully should take this number of branches to beyond 600. Today, it is at 578.

So I will take questions from here.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Jain from Wealthcare Security.

Manish Jain: Yes, thank you for the opportunity. What is the advances growth forecast for this year, as well as deposit growth forecast for this year, for the coming year?

Salee S Nair: In FY '26, we are looking at a combined growth of 13% to 14%. Because we believe that the initiative that we have put in place would start taking roots. The first couple of quarters would be a challenge as we get into the change mode as a lot of initiatives are getting implemented, bit of a disruption. But in the second half, we expect significant benefits accruing out of it.

So, overall, for the year, we expect 13% to 14% of growth, I mean business growth. Within that, deposit should be in the 11% to 12% range, and advances should be anywhere between 15% to 18%.

Manish Jain: Okay. And what kind of guidance is there for NIMs?

Salee S Nair: NIM would moderate a bit, but of course, rate cuts are happening. NIMs would moderate a bit. When I look at the kind of CASA growth we are looking for, with particularly the TBG or the transaction business group in place, we expect the CASA growth to be higher than the overall deposit growth, moderating to some extent, cost of deposit. NIM would be in the 3.80% kind of number, 3.80% to 3.90%.

Manish Jain: 3.80% to 3.90%.

Salee S Nair: Yes. And above we are trying to defend, yes.

Manish Jain: Okay, sir. That's nice to hear, sir. And sir, about this cost of deposit and other initiatives, whatever you are talking about, at present, where are we? Like in the last con-call, you had told that by the next year, you will be able to give guidance about all the new initiatives. So, at present, yes…

Salee S Nair: I think I did mention some of it already. The CMC, the carving out of the credits from the branches, we have implemented in one of the regions. That is something that I promised it has already been done in the Thoothukudi region, which is the biggest region for the bank. We have already implemented that. The experience along with the implementation or carving out or sun lighting the credit processes, we have put in place a significant resource for the relationship side and onboarding a few customers. That's happening.

We have also put in place the LOS and the LMS because CMC would tackle both the retail and the MSME and the agri, the entire credit, as I mentioned earlier. So, that also has been linked. That is one. And the other aspect is we have also just about completed the construction of the business rule engine that is undergoing testing at the moment.

I think that would be towards the end of the current quarter itself, I believe that would be made available. So, that's going to be the nerve center for it. And with the automation, significant automation in the pricing process, we expect the turnaround time to come down sharply and making us a very competitive player in the marketplace. So, that's something that we expect to get benefit of that.

That's the reason I mentioned earlier that in the advances, we are projecting something higher than what we saw. We got a growth of 11% in the current year, sorry, in FY25. We are projecting upwards of 15%. So, that's on the advances side. To drive, to align ourselves to the market, we have also verticalized the bank in the sense that we have created eight verticals within the bank, each driving a specific business area.

And not only driving the business area, also trying to get within that business area to what is happening in the market, to check into what is happening in the market or create new products, to revised existing products, to refine the processes, simplify and improve the productivity. Within that business area, we have also created eight verticals, four each in the asset side and the liability side. So, that's the other piece that I didn't mention earlier.

That's something that we have put in place with very clear budgets. And as I said earlier, 81% of the bank ground force today is on CTC with their variable pay increasingly aligned to the bank's profits.

Manish Jain: Yes, sir. Another one question was regarding the advances growth, which you are projecting of 15% to 18%. Sir, I think the norms of Reserve Bank regarding the gold loans and everything in the recent days and our exposure to the gold loans, basic loans are quite okay, quite good. So, that makes you more confident of 15% to 18% growth and same extension to that question.

And if there is a loan growth of 15% to 18% and a NIM which you are projecting from 3.8 to 3.9 and there are a lot of hidden provisions. So, we can expect a profit growth of 20% to 25% possible?

Salee S Nair: No, I don't think on the profit front, we are projecting that kind of. A couple of things that we will be looking at this year. One, of course, is a significant amount of capex happening. We did spend about INR155 crores on the IT side last year, but this year I am seeing a significant ramp up of that. In fact, whatever we have contracted already, by way of IT assets and automation processes that we are sourcing,

I think some of the payments are going to happen this year. And apart from that some of the branches that we have, the physical branches that we have, we are also looking at how we can orient it towards a modern with a modern outlook and a modern ambience. So, some amount of expenditure is going to happen that. I think we are trying to look at clean up at least 50 of the branches and re-orient these branches as ESG branches, elite services branches, looking at high net worth individuals.

So, that's going to have some kind of a capital expenses is going to go there. So, while I did mention about 14%, 13% to 14% growth happening. I'm not - I think the profit will possibly be aligned to that. It will not be greater than that. In fact, I've been looking at only at 10% to 12% growth for the, perhaps closer to 12% for the current year. Because this is the year when a significant amount of capex is happening, but we will ensure that the CR is at 50% and lower than 50%.

Manish Jain: So, sir, this will be the last year in capex, sir?

Salee S Nair: We ramp up the quality of the portfolio. Some, like I said 3.80 to 3.90, some moderation of the NIM also will happen, which will contribute, but the profits certainly will be higher than the growth profit that we have delivered this year. We did deliver 10.35%. FY26 profit will be higher than that.

Manish Jain: Sir, but this will be our last year of this maximum capex we'll get over in this year?

Salee S Nair: It will be over.

Manish Jain: Okay, sir. Thank you so much for answering all the questions.

Salee S Nair: We will continue to be investing, but I think that will be fully loaded into the current year and FY.27 is the year that you have to watch the year before.

Manish Jain: Okay, sir. Thank you so much for answering all the questions. Best of luck.

Salee S Nair: Thank you.

Moderator: The next question is from the line of Hitaindra Pradhan from Maximal Capital. Please go ahead.

Hitaindra Pradhan: Hi, sir. Thanks for the opportunity. So, sorry if I missed this. So, you mentioned the cost-to-income would stay a little elevated or will it normalize further?

Salee S Nair: No, cost-to-income, in fact, in the current year we have brought it down. I think it is at 44%. It might move up a little, but as I said, the cost-to-income ratio will be maintained below 50%.

Hitaindra Pradhan: Right, sir. And your guidance on ROI was around 1.75% earlier. So, is it still at that level?

Salee S Nair: It will still be at 1.75%. Yes. Of course, this year, by FY.25, we delivered 1.88, but there will be some moderation 1.75 to 1.80.

Hitaindra Pradhan: And you say your credit cost and slippages have been pretty impressive. So, you see it sustaining at that level or you see some surprises?

Salee S Nair: No, I think we have already factored in the surprises. Let me tell you in FY25, the largest NPA that we have which is almost 30% of the overall NPA book, the GNPA, we have fully provided. And if we can recoup that in the current year where there is a possibility then that will add to the guidance of 10% to 12% of net profit. So, I think I don't find much of a surprise happening on the GNPA side and we have delivered 1.25% with a 71% PCR. Going forward as well, I think the 1.25% would be different.

Hitaindra Pradhan: Okay, sir. Yes, that's all from my side.

Moderator: Thank you. The next question is from the line of MB Mahesh from Kotak Securities. Please go ahead.

MB Mahesh: Hi, just a couple of questions. I'm sorry it's kind of a bit late. Just to kind of add on to the previous question that was asked, in your sense what is the kind of feedback that you seem to be getting from your customers of the situation on the ground, especially with respect to exporters and importers?

Salee S Nair: No, sorry, you would mention? Go ahead, I can hear you.

MB Mahesh: Sorry I'll just repeat the question here. The question is that when you look at the situation on the ground and when you ask your business heads about what the feedback is with respect to the implications of your customers on what's happening on the global side, how are they looking at FY26 and how are you responding to it, sir?

Salee S Nair: First, at the bank level, I think the trade finance is one area we are really focusing on. I'll come to the macro a little later. That's something that we are focusing on. And we are also having trade finance specialists onboarded into the CMC setup. I did mention that to you. You have come a little late. So let me recap for you. We are putting in place credit management centers. We have already done that.

In Thoothukudi the experience is good and we are ramping it up to the other regions as well. We have 12 of them. And we are putting in trade finance specialists, product specialists to ramp up this one area. We believe given the kind of clientele that we have, we can really ramp up in terms of fee income, the forex side of it and the trade finance side of it. So that's the first part of it. So that's the only part of it.

But when I look at what is the changes that are happening across the world, particularly the US tariffs, etc it has not really impacted our segment as of now. I don't see any kind of significant changes that is happening into the kind of movement in the exports or imports that is passing through our books currently. But just keeping a watch on that.

And like I said, we are putting in place specialists to specifically look at the movement and the changes that are happening and how we can protect our fee income from it, along with giving guidance to the customers on how they can tackle it.

M.B. Mahesh: Okay, perfect. And the second question, sir, in general, have you seen an improvement in pricing for loans, a deterioration in pricing of loans in terms of the competitive intensity from where we are today?

Salee S Nair: Pricing of loans, of course, we have already seen two rate cuts now already with so that's sort of having an overhang on our pricing, in a sense, from an accurate perspective. Consciously also, we are trying to moderate, particularly the MSME pricing a little. I did mention that the NIM that we will be looking for is 3.8 crores to 3.9. So in that range for the current year, that also looks at a bit of a pricing moderation for our MSME portfolio. And the intention is to move into the market and look for new business where pricing would be a challenge.

So that is being factored in. Yes, even in the existing books, we have come across certain challenges, but that is being that has already been tackled in the current year in FY25. And of course, that will continue to be tackled going forward as well. And I'm confident of protecting the NIM by 3.8 to 3.9.

Moderator: The next question is from the line of Jagdish Sharma, an Individual Investor.

Jagdish Sharma: Hi sir, just congratulations for the good set of numbers. I just have one question. Sorry, I just have two questions. The first question is like we have 425 branches in Tamil Nadu and the rest of the states we have 1 or 2 in some states it's in double-digits. What are the plans we have because we have opened 26 branches during FY25. What are the plans for FY26 and are we only concentrating on Tamil Nadu or are we on to some other states? This is my first question.

Salee S Nair: We are looking to open 50 branches in the first two or three quarters itself so that we should get up to 50 branches in the first two or three quarters. Hopefully, in the first two quarters itself, maybe there could be a spillover but certainly before the end of December. And we are hoping to open half of these branches in potential growth areas outside the state of Tamil Nadu.

Jagdish Sharma: So, what is the full year number?

Salee S Nair: Full year number would be 50, minimum 50, and half of it outside the state of Tamil Nadu.

Jagdish Sharma: So, my second part of the question is like what is your goal out of Tamil Nadu? Where do you want to have at least 300, 200 branches in next 3 years, 4 years? What are the states you are targeting? That's my question, second question.

Salee S Nair: I think when I look at the profile with 75% of the branches within the state of Tamil Nadu, going forward, we are trying to drop this down to 60%. That will be a three-year venture. I think I did mention this in the last call as well.

Jagdish Sharma: Yes, yes, yes. So, my second question, sir, what about our CEO appointment at the centre? Where are we on that?

Salee S Nair: Not clear. What?

Management: Can you repeat that?

Jagdish Sharma: CEO appointment.

Management: What? CEO appointment.

Salee S Nair: Sorry, what did he say?

Jagdish Sharma: CEO appointment. Bank CEO, MD and CEO appointment. MD -- there and CEO appointment.

Salee S Nair: We'll take a call at the appropriate time. The management bandwidth is now strong and I think that is getting also reflected in the results that we are seeing. It is strong. I think we are pretty much all the positions at the executive vice-president level is now full. And we will look at it now.

Jagdish Sharma: My final and last and final question is, whether we are on track to achieve 16% to 18% ROE by FY26 or FY27? And when do you think we will achieve that number, 18% ROE, 15% to 18% ROE?

Salee S Nair: 18% ROE is, FY26, I don't anticipate that. I think FY26, we will try and, the number that we looked at in FY25, which is about 14%, is something that will continue, perhaps a little better for FY26. But FY27 will be better, but 18% I think would be yearly.

Jagdish Sharma: Congratulations for the FY 26.

Moderator: The next question is from the line of Saket Kapoor, from Kapoor and Company.

Saket Kapoor: Sir, Thanks for the opportunity, I joined a bit late, so sorry for any repetitive question. But sir, you mentioned in answer to a question that FY27 would be the year to watch in terms of the profitability growth and for the investing community as a whole. So if you could just allude to us what factors will culminate from two years from now, or what levers will be in play that will result in that year to reckon for the bank?

Salee S Nair: FY27 is only a year from now. We're talking about next year. Why one, of course, I've also said that we would be largely aligned to the market growth in FY26 itself. I did mention that we will have a 13% to 14% growth. That is the first part of it. And this is going to happen despite the fact that we anticipate some disruption to the changes that we are bringing in. We have brought in a lot of initiatives, both on the HR side, and as well as on the technology side. The processors are being automated. There's a whole lot of changes that are being made as the ground force gets tuned to these changes.

We anticipate a bit of disruption that's happened. That is why I said that the kind of growth that we would love to see in the current year may happen only in the next year, because while the ground force gets accompanied to the changes and start delivering the productivity that we are envisaging from these changes, I think this year we will see the bank aligning to the market and perhaps going a little better. But next year, I think the full benefits of the initiatives would be made available and we see a significantly higher growth.

Saket Kapoor: For the benefit of your investors, could you outline what are the disruptive changes that have been put into place and how are they going to play out in terms of the profitability? As a Q-on-Q, we have seen that even though our net interest has gone up, but our operating profits were flat. So if you could just comment two points and then I have two more questions?

Salee S Nair: The first aspect is that we have created very clear eight verticals in the bank with clear business targets. That's on the asset side and on the liability side. That is the first thing that we have done.

And each of them have been given you to look at the market, look at the products in the market, refine the products that we have, refine the processes that we have in terms of delivery of these products, automate the process of delivery. I think they have been given very, very specific targets of how to make the competition dead on.

That is one aspect of the verticalization of the bank. It has been brought about from that perspective. Second, as I think I mentioned earlier also in the last few about half an hour or so, about the changes that we are bringing in, the automation that we are bringing in, the kind of credit management center that we have brought in to centralize a bit and benefit from the scales of economy, economic scales rather. And that's one major thing that we have brought in in the way that we are conducting our operations.

We have also brought in transaction business group, the global NRI center going to attracting we have significant pressure where the NRIs are concentrated and we want to take advantage of that. We have brought in the global NRI center. We have set up in this month, in the month of April as just about a week back, elite services group which, of course, will take a bit of time to take root, to reinforce our high net worth individual, ramp up their value for the bank in terms of both product offerings and their outstanding in CASA and the term deposit.

So that ESG is something that we have taken root. And as I mentioned that in HR initiatives, we are going in for a major skilling program. We have, in fact, conducted a test across all our HR, human resources, a test conducted to understand their talent. I think that test has been conducted across all the ground posts that we have. The test was conducted by the Indian Institute of Banking and Finance to understand where their talent lies so that we can appropriately deploy them. That itself is completed.

That has been completed and our redeployment is based on significantly takes inputs from them as well. So HR skilling is a major activity that we are engaged in. As I said earlier, the wage revision that we assigned, which is historic in nature is now has 81% of the force, the HR force that we have on the CTC model where it is aligned to the profit generation, the variable, that component is aligned to the profit ambition of the bank.

So a lot of initiatives have been taken and on the IT side and significant capex is happening. Internet banking has been completely revamped, significant amount of services to be provided through the internet banking that is on. I think we will see that how we can avoid customers coming to the bank and have all the services delivered through other channels, other digital channels.

I think that's a major one. I think it will take a couple of quarters and maybe it will move into the third quarter before we see the benefits of that, benefits of the changes in that. The automation of the credit appraisal system, as I said earlier is on. The business rule engine to tackle the low value accounts up to 50 lakhs in an automated fashion, decisioning based on the data. That's pretty much completed.

It's in the testing phase. LOS, LMS to manage end-to-end credit customers, that is on, it's getting done. Take another couple of quarters before it sort of fructify and start delivering profits, sorry, and business. So I think there are significant, many, many initiatives have been taken and I anticipate all this to deliver results. Going forward, certainly, partly in the current year and certainly in a substantial manner in FY 27.

Saket Kapoor: Sir, thank you for the elaborate answer. You did alluded to 15% growth that is what we should envisage in our net profit for this financial year, sir, that is what you are looking for?

Salee S Nair: No, I didn't say 15% growth. I said 10% to 12% most added workloads in the current year.

Saket Kapoor: In the current year. No, I think you also spoke something about our profitability rising by, may incline to increase by 15% for this financial year. I think I heard you mentioning that also?

Salee S Nair: I didn't say on that. I said the growth 13% to 14%. What I did mention is that I did mention 10% to 12% on the net profit because of the capex and that we'll be takings one time effort both in the branches and the physical appearance of the branches as well as in the digital appearance of the branch or digital appearance of the bank. What I did mention was that on the GNPA front, that we have a particular account with a 30%, where 30% of the current GNPA is on account of a particular account.

If it gets dissolved in the current year and it has been fully provided, so that would be a cut off. So that's what I mentioned. I did not mention about 15%.

Saket Kapoor: Okay. And sir, which sector is it? I just concluded my talk. Which sector the GNPA is, which you are mentioning 30% .

Salee S Nair: That is in the corporate sector.

Saket Kapoor: Which segment, sir? Which industry, sir?

Salee S Nair: Spinning Textiles.

Saket Kapoor: And lastly, sir, are we fully funded to fund the growth or we would be needing any type of equity inclusion or bond issuance to fund the growth for FY27 and onwards? And secondly, sir, the Reserve Bank stand on monetary policy now becoming accommodative and going ahead also going to remain accommodative for the near future. And also the abundant liquidity in the system.

How do we see that playing out in terms of the profitability, in terms of the NIMs and other factors? Because you have already lowered the NIMs trajectory to 3.8, I think, for this financial year. Now with liquidity and things improving, how is banks of our size aligned to the current monetary environment in the country?

Salee S Nair: Yes, first question part of your question about additional funds. I think the CAR capital adequacy ratio of 32.71% that is up 334% in the year itself. I don't think in the foreseeable future we'll be requiring funding from the capital markets. That is one. I think our challenge is to spread these extra funds that we have in terms of growth. I think that's where we'll be focusing on. The growth is there. I think our single-minded focus is on currently. And I did mention, when I mentioned NIM of 3.80 to 3.90, we have already factored in a possible 50 basis cut.

Saket Kapoor: Yes, that is correct, sir. So I was just trying to understand, earlier the NIMS improved when we were in an environment where there was a tightening of liquidity. And now we are in an environment where liquidity will be in abundant and the growth from the, it will be the corporates whose capex and all will be driving the growth, which is not in the annual as of now. So how is the banking system aligned, especially in terms of the small-sized banks of our nature, which are specific to a specific geography? So that was my question.

Salee S Nair: So that's an advantage that we have. In fact, a large-sized bank like State Bank of India will mirror what is happening in the market in a much more transparent way. On our side, I think our pockets of influence are greater when we are strong for us to withstand some of this pressure. On what you mentioned about the liquidity easing, yes, it is easing, but so long as it's not felt on the deposit rates. We are looking at the deposit rates continuing with the existing. We are anticipating that the deposit market will continue to be a challenge.

We'll have to look at how the capex side is happening, the income tax relief that has happened, how it is going to play out, how the mutual fund, the move towards the mutual fund in terms of the SIP is going to play out, and how the larger industry in terms of the pricing of the deposit, the particular deposit is going to play out when we look at the NIM. To put a further color to it, I did mention that we have started the transaction business group from a focus on the current account space.

And the elite services group that I did mention subsequently is going to focus on this CASA. So CASA is going to be a major focus for us, which we are trying to even if the deposit, the market becomes a little tight, we would use the CASA as a means of keeping the CASA to market. And if the thing eases out, and if the anticipated liquidity happens, the flow of funds into the banking sector happens, it's a bonus for us.

Saket Kapoor: Yes. Thank you, sir, for elaborating the answer. And sir, we as investors hope that market will also start valuing the enterprise value. Also, we are trading much below even one-time book, and taking into account, I think the 550, I think is the book value, correct me there. It is for investors' waiting time for a period for a very, very long period to get adequately rewarded. So we are still in the wait mode only to reap gain from the remaining investors in TMB, sir. That was only my concluding remark, that the wait is very long for us, yes.

Salee S Nair: Like I said, we are fully aligned to it. I myself are investor in TMB, and we are fully aligned to it. And whatever we are trying to do is to generate the kind of growth. Like I said, from FY '24 to FY '25, the growth has doubled, and the deposit is more than doubled. And of course, the initiatives that we have taken led to bear fruit from that manner.

This has just been in terms of our own monitoring of business growth internally that has generated. And once the business initiatives that we have taken start bearing in the growth, we anticipate to move up further. And like you said, the wait for a better valuation, I think it is going to be over sooner than you think.

Because the growth is happening, the profits will come, and as we go forward, the graph, we anticipate to trend upwards. But it is certainly from both the growth perspective and from the profit perspective.

Saket Kapoor: Thank you, sir, for all the answers.

Salee S Nair: It is the market that has to give us the valuation. I am sure the market will understand, because market is, after all, we will understand numbers better than us and digest it and give us the value that we deserve.

Moderator: Ladies and gentlemen, this will be our last question. It's from the line of Manish Jain from Wealthcare Securities.

Manish Jain: Thank you for the opportunity, sir. Sir, what percentage of our business comes through the digital channels? And where are we compared to other private banks? And what are our future initiatives in this segment, sir?

Salee S Nair: Through the digital channel, it is, I would say, very close to zero, right, 2% to 3%. But of course, and the advances side is fairly those are the initiatives that we have taken. On the advances side, I just mentioned, we have put in place the business rule engine, which has just been the construction of which has just been completed, and it is under testing phase, where we intend to use data for decisioning, credit decisioning. I think that you will see starting from maybe later part of the quarter, or in the second quarter, the current year, it will go on stream.

So, a significant particularly the low value, the below 50 lakhs, we will be significantly using digital means to onboard and also for decisioning purposes, sanctioning purposes of such loans. So, I think that hopefully should significantly reduce our own operational cost of managing these accounts. So that process is on. I think that is one of the initiatives that I mentioned is aimed at.

Currently, it is very, very low. I don't want to really nothing worth speaking about. But as we go by, I think the onboarding of customers would be significantly through the digital channel, both on the liability side and on the asset side. In fact, we are, as I speak, we are completely revamping our onboarding journey on the current account space.

Salee S Nair: You are talking about the business, right, or the transaction?

Manish Jain: Yes, both, sir, both.

Vincent M.D : Transactions, as of now, it is more than 90%. We have not rolled out any product like pre-approved loans, which is available through digital channels. And thereby, the business growth is as MD and CEO has mentioned is 50%. But our customers do use digital channels like Internet banking and other digital forms. And transactions are 90% of transactions are happening through digital channels.

Manish Jain: Sir, and business, you told how much, 44%?

Vincent M.D : Business is roughly 2% to 3%.

Salee S Nair: That's onboarding of advance customers. Credit customers are normally through legacy means. And our entire initiative is doing that through other means. We have put in place a large relationship manager post. That's a part of we're also looking at how it can be onboarded through various other layers.

Manish Jain: Okay, sir, okay. Thank you for the elaborate answer. And best of luck, sir.

Salee S Nair: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I now hand the conference over to Mr. Nair for closing comments.

Salee S Nair: It was good to talk to the group here. Of course, I've not been able to see, but the voices were very clear. And like I said earlier, FY '25 has been a year where we are still we have tried to break from the past in terms of growth in business numbers.

We have partly, or rather more than that, what I mentioned in the last December results call that we will look at double the deposit growth. And that has actually happened. We have more than doubled it. I mentioned 8%. We have crossed it. We are at 8.40%. The overall business number is also, I think, is a tad below. I accept that it's a tad below the market. It's 9.58. But FY '26, we will see that it is aligned to the market or perhaps even better than the market.

And our stress quality, the management of our stress is perhaps as good as the best in the market, 1.25% GNPA, SMA at 2.55%. Both combined 3.80% of it's perhaps one of the best in the market. Adequate capital adequacy ratio is very good at 32.71%, PCR at 71%.

And finally delivering a net profit of 10.35% and we are a lot of initiatives have been taken to push up both the business levels and net profit. And I'm sure that the FY '26 numbers that we will deliver, we are confident that it will be significantly it will be better than what we have done for FY '25 and that's our endeavor.

I think a significant amount of initiatives have been taken. I did mention about verticalization. I did mention about IT initiatives. And of course, also about how we intend to turn our branches, at least some of them, into both in terms of appearance and in terms of orientation for the business growth.

So I think we are fairly confident. I think confident in the sense that the initiative that we have taken is beginning to show some growth. The green shoots are very, very clearly evident and that gives you the confidence that FY '26 is going to be significantly better than FY '25 and as I said initially, FY '27 is the year that you have to watch out TMB for.

So thank you once again for coming and joining us on this call and I'm sure any other questions that we have, we can also take it separately as well. Thank you.

CFO: You've covered everything. A couple of points I just wanted to sort of address here. That is in terms of NPA management. We have travelled a lot from a position of INR1,084 crores in 2021, which was 3.44% of our portfolio. Today, we start at INR556 crores which is half of what we were in 2021. And similarly, net NPA, if you look at it, this year's position is INR160 crores, which was against INR335 crores last year, which is against more than 50% reduction in net NPA. So these two points I think the investors should take note of and thank you very much.

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. Thank you.

Salee S Nair: Thank you.