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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.

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Dear Sir/Madam,

Sub: Transcript of the Earnings Conference Call – Q1 Results

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that the transcript of the earnings conference call hosted by the Bank on the Unaudited Financial Results of the Bank for the quarter ended June 30, 2025, has been made available on the Bank's website at the following link:

[Transcript of the Earnings Conference Call – Q1 Results](#)

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

Kindly take the information on record.

Yours faithfully,

For Tamilnad Mercantile Bank Limited

Swapnil Yelgaonkar
Company Secretary & Compliance Officer



Tamilnad Mercantile Bank Limited

Q1 - FY 2025-26 Earnings Conference Call - Transcript

July 28, 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 Tamilnad Mercantile Bank Limited Q1 FY '26 Earnings Conference Call. This conference call may contain forward-looking statements based on the beliefs, opinions and expectations as of the date of this call. These statements are not the guarantees of future performance and involve 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 call, please signal an operator by pressing star, then zero on your touch-tone phone.

We have with us on the call today Mr. Salee S Nair, Managing Director and CEO, Mr. Vincent Menachery Devassy, Executive Director; and Mr. Sanjoykumar Goel, Chief Financial Officer.

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

Salee S Nair: Good morning, and thank you, Reyo, and it's a pleasure to be part of this analyst call today morning. Yes, I think if you look at the performance of Tamilnad Mercantile Bank for the first quarter of FY '26, I think we have delivered a creditable performance. And also, if you look at the larger picture, we have stabilized more or less the operations also have now been stabilized. The foundation is getting laid, rather a strong foundation for a take-off in the subsequent quarters.

If you look at the business, I think business has always been a worry, particularly with deposits, whether we would be we are in a position to raise it. I think that's something that has seen an uptick, both deposits and the total business. Now it stands at 30th of June, it stands at INR 98,923 crores, up 9.86%. And deposits on a year-on-year basis has more than doubled to 9.38%, it is at INR 53,803 crores. Incidentally, this bank has crossed INR1 lakh crores. I think that's the first peak that has been done. I'm sure many more such peaks will follow.

So deposits, as I said, has more than doubled. The pace of growth has doubled. So we are really, really seriously getting back into our resource mobilization for the kind of growth that we are anticipating. The CASA has been a worry, in fact it has been a worry across the system, and in the bank as well. And I did outlay that outlined the last quarter and the previous quarter that we have taken a number of initiatives in this. And it is beginning to deliver, including the transaction business unit that we set in place.

And in the first quarter, I think, again, the trend of declining CASA has been arrested, and we have been able to reverse it with a year-on-year a modest year-on-year growth of 4.51%. On a - on a quarter-on-quarter basis, this is an improvement of 34 basis points on the CASA share. RAM continues to be our focus, and that's up 11.93%. It currently stands at as on the 30th of June 2025, stands at INR 42,100 crores. There has been a slight compression of NIM.

I'll come to that later. The operating profit is at INR 412.26 crores. It is lower on a year-on-year basis. There are reasons for which, which I'm sure I will explain. Net profit is up 6.13%. So on

the operating profit, what we have also done is we have upfronted some of the costs that in the first quarter itself, we normally provide the performance-based incentive.

In last year, that was about INR 36 crores, INR 37 crores. And it's normally amortized. So, first quarter of last year, in FY '25, we have taken just INR 8.74 crores. This year, the entire INR 41.27 crores has been upfronted and has been absorbed in the quarter itself. So despite that, we have been able to deliver a 6.13% growth.

Again, on the net profit side, on the operating profit side, both interconnected, of course, is that we did have one-off in first quarter of FY '25, which including recoveries in the technical return of accounts that was not available in Quarter 1(Q1). So accounting for all that, I think it is a decent operating profit that we have delivered, a decent net profit that we have delivered. And coming to the stress side of it, the credit cost is just about 6%.

Again, tight control, GNPA down 22 basis, 1.22%. NNPA, year-on-year, 33 basis, 32 basis down, virtually, it has halved. Return on assets was at 1.88% and it has come down to 1.82%, a reduction of 6 basis. But sequentially, if you look at what we stated last quarter when we were analyzing the results of FY '25 and the Quarter 4(Q4) of FY '25, the March quarter of FY '25, it was at 1.81%.

So there also sequentially, it has moved up. Return on equity, of course, is 13.30%. It's down, but more or less stable at the moment. And PCR on book is 73.04%. So and that's a sharp increase that you have seen up from 55.22%. 17.82%, we have ramped it up to 73%. That is on book. That is the PCR on book.

And if you also take the technical write-offs, it is 94.32%. As I was saying that we did take a lot of initiatives on the CASA side, including we did we, in fact, opened 7, both on digital side and on the branch expansion side, I think this quarter itself, we have opened new branches, all aimed at deposits and also in particular, CASA. The transaction business group that we have initiated in early last quarter is slowly beginning to help us turn the tide on CASA.

We have also introduced online account opening towards this. And the sum and substance of the aggregated initiatives taken is we have seen a year-on-year growth of 4.51%. The CASA stood at Rs. 14,411 Crore level, which I'm sure, going forward, the riding on the initiatives will get strengthened. Retail deposits continues to be good for us, 11.25%, including the bulk.

Bulk is also pointing out to the kind of high net worth individuals that sort of banks with 11.43% term deposits altogether at 11.28%. So on our resource mobilization, I think our initiatives, the branches are beginning to take and the growth is now beginning to come.

I think 9.38% as I said earlier, it is more than doubled what we have done on a year-on-year basis. So CASA share is up 34 basis as I just mentioned, it is at 26.78%, up from 26.44%. So year-on-year deposit growth, I think, has been steadily picking up over the quarters from 4.64%, it has moved up, now stands at 9.6%.

So in no quarter, we have the growth has flattened, which points out to the kind of focus that we are bringing into the area into this area. And we expect the CASA also to mirror that going forward riding on the initiatives we have taken. On the advances, yes, on the MSME side, we have a lot of initiatives being taken, as I did mention in the last call as well that we are setting up credit management centers and the quarter we have spent, in fact, in tweaking days and training a large population of who are going to be in the CMT, the credit managers relationship managers.

There was a large contingent undergoing training and as well as we are also looking at setting up the online platform. So there has been a bit of a disruption there, which is in the nature of laying the foundation, strong foundation for MSME sector.

In fact, this is one sector that this bank would be seriously focused on. And you can see some of these as the quarters pass by. Overall, on the RAM side, I think we did deliver the bank did deliver 11.93% of growth. And overall, the growth stands at 10.44%. 30 June, we closed at INR45,120 crores. The CD ratio continues to be 83.86%. I think it's under 85%. We would like to see it remain around 85% or under 85%. We're not really worried about this because our capital adequacy ratio is in excess of 32%.

And leverage ratio is 12.44%, which is something that gives us I'm sure not just this bank, I'm sure the investor community also will take a lot of comfort on that. There has been a lot of talk in the market about unsecured portfolios, right? I think RBI and the system, the banking industry itself is worried. And then I come to Tamilnad Mercantile Bank, unsecured portfolio just answered 0.28% of the advances that is 0.28%. So we are largely secured. Our portfolio is largely secured or almost entirely secured.

And even in the unsecured exposure, the NPA is 0.43%. So even there, I think our tight control on the stress continues. On the financial performance, interest income is up 8.20% and operating profit operating the total income is at 6.77%. Again, like I said earlier, there was a one-off in Q1 of FY '25, which helped sort of improve the interest income in that quarter.

If you look at the expenses, you will see that there's a number, 20.24%, and particularly the employee cost was 24.24%. That is on account of, as I just said, that the entire performance-based incentive, INR 41.27 crores that ordinarily in the previous years was amortized over the quarters.

We have taken as a conscious decision to absorb it in the first quarter itself. So, if you remove that, if you even the employee cost comes down to 6.70%, from the 24.24% that is shown there. So overall, that also has impacted the operating profit. And net profit is at 6.13%. If we had negated all that, it would have been in excess of 10%.

So, the shareholders value, we continue to deliver book per value of INR 589 crores and a net worth of INR 9,328 crores. On the NPA, I think this is, again, continues to be our major focus in the bank to control this stress.

And if you look at it, it is below INR 550 crores. And that INR 550 crores has been delivered with 0 write-offs. So it is entirely the reduction is entirely the gas recovery and the rate and also accounting for the fresh addition. So that's something that we are fairly proud of. GNPA, like I said, is at 1.22% and NNPA, 33 basis points. Slippage ratio 5, basis points. I think another it is just at INR 22 crores, down from INR 54 crores in the previous quarter and year-on-year down from INR 55 crores.

SMA continues to be an acceptable level at 3.05%. And stressed asset 1.88%. And the other aspect that I would like to bring to the attention of the analysts is the collateral coverage that we have. On the stress book, as I said earlier, our stress book GNPA is below INR 550 crores. It stands at INR 549.12 crores and the collateral cover of this book is 108%.

And we have provided this book INR 370 crores. So which means that once we start resolving this, which I'm sure will happen over the next year plus through the year and the year plus, this provision that we have given is likely to largely likely to return.

So on the key ratios, the NIM, we did take a bit of a hit, 3.84%. Then this is something that was anticipated. And if you recall, I did mention in my last analyst call that our NIM would be between 3.80% and 3.90%. Of course, we did have 2 rate cuts that happened 0.5% initially and 0.5% subsequently.

I think that would that impacts the NIM as the repricing of term deposit, I think the bulk of it about 66% of our term deposits is in the 1 to 2-year bucket. So it takes a bit of time to reprice it, and that is impacting the cost of deposit. But even then it is at 6.01%. And the yield on advances is also, I think it has marginally come down 10.02% and 3.84%. And this number of NIM 3.84% going forward, we expect it to be in that range or marginally move up.

Now I'll stop here, and I think I will take some questions and answers questions, and I'll be happy to answer them. Thank you.

Moderator: Sure. Thank you very much. We will begin the Question and answer session. The first question is from Jai Chauhan from Trinetra Asset Managers. Please go ahead.

Jai Chauhan: So I just have one question. So sir, the NIM moderating from 4.25% to 3.84% in Q1 FY '25 and your guidance of 3.80% to 3.90% for FY '26. I just wanted to know what specific strategies are you implementing through your transaction business group and services initiatives to improve your funding mix? And how sustainable is your deposit cost management given the competitive environment? And what levers do you have to defend margins in a declining rate cycle?

Salee S Nair: Yes. Of course, I think it goes without saying that the market is really competitive for deposits, particularly when you look at the fight of deposit in looking for higher yields and what's happening in the mutual fund industry. So we were conscious of it. And that's why, in fact, in the last year's call itself, I did mention that we have started a transaction business unit aimed at getting the CASA or retaining and strengthening the CASA base. And I think over 100 relationship managers have been posted exclusively for particularly the current accounts.

And current accounts is the focus, current accounts and the past accounts, and they have been posted, and they are now in the market, and that's beginning to show in some of the numbers that are coming in. So the CASA mix, as I just said, riding on the transaction business that have been initiated virtually across many of our strategy branches. We do have a relationship manager in strategy branches placed to look at the CASA, particularly top part of it.

And like I said, that's beginning to show some results. On a quarter-on-quarter basis, our CASA share has gone up 34 basis. And this is something that we will continue. We have just launched, in fact, in this month, an online onboarding process for the current account holders. And we are also looking at several initiatives at the branch level itself.

In fact, we are looking at nearly 200 data entry operators to relieve pressure on the counter and so that they can start also looking at referrals and asking for savings bank accounts. In addition to this, we have also set in motion launched elite services group that is aimed at the existing depositors, particularly the savings bank holders.

And this elite services group would have relationship managers giving them end-to-end services to some of the high net worth or high deposit customers or whatever. So that's just been set in place. And both the initiatives together, I trust and I am sure will help us retain the existing customers as well as improve the CASA, the CASA customers going forward and the CASA share in the advances, we are hoping that it will start inching up. And I think is that you want is that okay? Or did I miss out any of your any part of your question?

Jai Chauhan: No, sir. Nothing. That's from my side that's all.

Moderator: The next question is from Lakshminarayanan from Tunga Investments.

Lakshminarayanan: A few questions. As a bank, I look at it, we have one of the best ROEs among all the private sector banks, especially the old gen private sector bank, and we have the highest capital adequacy. We have the best GNPA, right? But I find something is holding us back from growing our core, which is the MSME. And if I look at the last full financial year, the growth has come from gold loans and MSME has actually been struggling for us.

Now is it a conscious choice or we are actually losing market share? Because when I look at some of the large private sector banks like the ICICI, HDFC, Kotak or even Investment Bank, Axis, the growth is coming from the so-called business banking plus SME banking while we seem to have either consciously holding us back. And I mean, it's just trying to see why with such strong positioning, we are holding back growth?

Salee S Nair: Lakshmi, let me tell you that MSME is the focus for the bank. It's obviously Mercantile. Now when you look at the name Mercantile itself suggests that we have to we are there in the MSME space. If you look at the first quarter, I was just mentioning that we are putting in place a lot of initiatives laying the foundation. I did mention in the last call also that we have started we have set up credit management centers.

And when we were looking at centralizing some of the process, we realized that it has to move in conjunction with the automation of the appraisal process itself. So I think that process so we have just sort of stepped back from that. The automation process is now being pushed, and we expect by September that process to come online. Hitherto this bank was looking at MSME processing in a manual way.

And that you can't have you can't scale up when it is done that way. So we have now contracted with one of the top service providers or software providers in the country to source a LOS package and a loan management system package. That implementation, we have already contracted. That implementation has started last quarter. It is not an easy it takes time to get this get it on the ground and get the productivity gains from that to start coming in.

And that's one aspect of it. The second aspect of it is that we have also recognized that some of our when we enter the market, we should enter with relationship managers and credit analysts of adequate skills. And that's something that we focus in the first quarter so that we have the foundation laid for a strong foundation laid for a take-off in the other quarters. So there have been a substantial training, several, in fact, credit analysts have been trained twice in the first quarter.

And in addition to that, even the relationship managers have been trained even not only within the bank, we have also sent them to train outside. So this skill set improvement that we are focusing on, along with the kind of investments that we are doing it on the online appraisal system, which I just did mention, the loan origination software, the loan management software, both in the MSME, gives me the confidence that the numbers, if you look at the first second quarter, it will begin to show.

And in addition to that, we have also set up TMCs in the other centers, we have not formalized it. We have placed our leadership there, and we are getting them to move into the market and start looking at new business. Now that's also yielding some business, some kind of a flow is happening.

And today, when I look at the pipeline, and I'm having a healthy pipeline of close to INR 1,000 crores, which is under process and which I'm sure is going to show some numbers, which is going to increase some numbers for the second quarter. So to put it to summarize it, yes, that is going to be our focus, and that is where you will see some numbers happen in the second quarter and going forward.

Lakshminarayanan:

So what kind of growth the bank is either internally budgeting right? Is it and which is the key segment because last year, the growth has come from gold loans and particularly in agriculture. So what would make you happy at the end of 1 year when you when the full financial year is ended, what kind of growth will keep the management?

Salee S Nair:

Yes. Lakshmi, let me tell you that the growth or the focus, gold to us is an OTC, over-the-counter product. That will continue at the branches. The current growth momentum will continue.

There's absolutely no reduction in that. We will continue there. But where the focus of the bank is currently in ramping up the MSME.

So you look at MSME and the continued growth in the gold loan, I think together, we'll be -- I did mention last call also that we are looking at about 15% kind of growth. I'm not anticipating particularly the MSME side. Even in the first quarter, we anticipated that there will be a bit of a disruption and the growth will not happen.

Like I said, the foundation is being laid. Second quarter also, I don't anticipate there will be some growth, but not to the extent. But in the second half of the current year, that is when we would have both our focus areas, skilling up the on staff as well as the loan management because the Phase 1 of the loan management systems also would have gone live.

And I think we will see the benefit of that in the second quarter happening. So both together, from the 10.44% that is largely riding now on the gold loan. We expect once the growth also starts coming in through the from the MSME, MSME sector and MSME portfolio, I think together, I think we should see the growth moving up to about 15%.

Lakshminarayanan: And sir, one question related to your annual report. In the annual report, certain accounts were actually mentioned as fraud. So, I just want to understand how much of that has been is actually being provided in the last 2, 3 years? What is the breakup?

Salee S Nair: No, I think let me tell you, as per regulation, the fraud account has to be fully provided in the same year. And obviously, the fraud accounts, we have provided 100%. But what is the number in the area?

Lakshminarayanan: No, because there is one which was which happened in I think 2 years back, one cotton thing in Andhra, which was almost like INR 165 to INR 170.

Salee S Nair: Yes, Andhra-based accounts, and it is, in fact, the largest of our NPA, and we have provided it 100%.

Lakshminarayanan: And that has been provided as called out as a fraud account?

Salee S Nair: See it was declared, but they went to court and RBI has advised us to actually take the tag off. So it is not called a fraud account at the moment. But despite that, we have provided as a prudent measure, 100% provision.

Lakshminarayanan: Thank You sir, I will get back to you

Salee S Nair: Thank You

Moderator: Next question is from Sana from Evergreen Capital. Please go ahead.

Sana: Hello, Good Morning, Thank You for the opportunity

- Salee S Nair:** Yes Sana, Good morning
- Sana:** Sir, I have few questions. Like the first one is a retail and retail advances. We have seen significant growth at 27.91 on Y-o-Y basis. Can you please elaborate on which sub-segments like are driving it? Like is it housing loan, personal loan or vehicles?
- Salee S Nair:** No. I think housing loan has really not sort of stable at the moment. It's largely coming out of the personal loans. And to a large extent, it is coming out of the gold loan, where we have not started prying open that segment as well from a gold loan perspective.
- Sana:** All right, sir. Noted. And sir, in MSME book, what is the life term? And MSME loan portfolio, can you please share the composition in the terms of sub-segment? And which areas are currently under stress? And what is the average ticket size of our MSME loans?
- Salee S Nair:** In the MSME side, we do have you are looking essentially for the stress in the MSME side, right, or you're looking for the segment of the MSME?
- Sana:** Sir, I'm looking for like subsegments in it.
- Salee S Nair:** Subsegment of the MSME, just give me a second. I'll just get you that. Can you quickly come to that page? No. Come to the next one. By then, I'm sure I can get you that, I think so. We will. Textile is a major area for us.
- Sana:** One more question I have, like in the changing like there is a continuous changing interest rate environment. How are we placed? Like are we going to maintain our CASA ratio forward? And how are we looking to build it up?
- Salee S Nair:** I did mention this earlier also that we have taken a few initiatives here. I did mention about the initiative that we took in the last quarter of FY '25, where we said we are setting up a transaction business group. And we have a sizable number of risk managers in the market to look at the current accounts and the past accounts.
- And in the first quarter of this year, we have also taken other initiative in the form of setting up initially the group that is looking at the high net worth, the higher deposit high-value depositors and particularly on the current account space. I think that we have sort of initiated in about 50 RMs elite services group. RMs have been sort of set up sort of we have sort of set them up in the first quarter.
- And together with the transaction business group, I'm sure that the CASA space we will come back. We have seen some erosions there in the last year, and that's something that we wanted to reverse. And happy to state that in this quarter, I think some results are being seen on that.
- And we are seeing, like I said, the 34 basis uptick we have seen in the CASA share. So reversal of erosion, sort of, this seems to we have been able to arrest it. And in fact, that the CASA share has moved up. And I am sure that with the kind of initiatives that we are taking, we are also

looking at several initial initiatives in this space. We have brought in the customer experience package has been implemented in the first week of July.

We are in the process of completely revamping our Internet banking package, so that the customers get the conveniences. And several services cost is they have to come to the branch today is tackled through the Internet banking. So that's something that we will see happening over towards the towards December of this year. It's a little distance away, but these are all initiatives that we are taking to arrest the to strengthen the current account and savings bank the CASA ratio.

And in the branch, itself, we are looking at business process management, where we are trying to reduce the current manual workload on the branch staff, so that they have they are freed from the daily routine, the maintenance work and then put into. They can be shifted into the sales group. But it's also a work in progress, and I'm sure we can as the day goes by, we can give you more color on that.

And the what you did mention earlier about the areas that we are in, I just got that breakup of advances that we have. We are significantly on the textiles. We have 1,000 out of the total portfolio, we have about 1,100 plus on the textiles. Food processing, we are quite strong. We have about INR772 crores. Engineering, Iron and steel, about INR200 crores, INR230 crores. Gems and jewelry, chemicals, engineering construction, I think we are there across several sectors.

So it is a fairly well-diversified portfolio that we are looking at. And within the MSME itself, if you look at the micro, we have about INR 9,000 crores the small enterprises at another INR 3,800 MSME. And the median, about INR 600. So it's, again fairly well diversified. And the ticket size, I think, would be I think that's where one we are focusing and improving the ticket size. And it's about INR 20 lakhs to INR 25 lakhs sorry, closer to INR 25 lakhs.

Sana: Ok Sir. Thank You so much sir

Salee S Nair: Thank You

Moderator: Thank You, Next question is from Rohan Mehta, who is an Individual Investor.

Rohan Mehta: Hello Good Morning Sir, Thank You for the opportunity, Sir, I have a couple of questions. Just wanted to get your opinion on what your growth expectations are in terms of deposits. Do you see them outpacing advances and if we have any particular strategy on that front?

Salee S Nair: See, the initiatives that we have taken, we have taken on both sides of the balance sheet. We are focused on the liabilities. We are focusing on the assets. I just mentioned on the MSME, that we will see the growth coming back to the MSME. The first quarter was a conscious call to lay the foundation. So both sides, the growth we expected to move up off. The deposits, we did on a year-on-year basis, I did mention that we doubled the pace of growth.

So that will that growth would continue there, and we are hoping that we ended the year in excess of 10%. Maybe between 10% and 12% is what personally I anticipate it all the in response to the kind of initiative that we have taken on the liability side, revamping the branches, all branches are coming on stream, we have just done 7 branches in the first quarter. And we have just appointed 29 branch managers for new branches.

So that methodology also, we are now looking at we have the branch managers in place before the branch itself, so that they can connect with the market. And on day 1, they can start with a certain critical mass. So that's also happening. So the branch expansion is on.

There are several initiatives being taken on the retail side. So altogether, we are hoping that we end up the year on the deposit side on a 10% to 12% of growth. And on the advances, our ambitions are slightly higher. I think I did mention earlier in response to a call that once the growth in the MSME comes back, which is bound to given the kind of initiatives we have done and given the kind of pipeline that we currently have across the country and across the centers, we expect the MSME to contribute equally to the growth.

And we are hoping to close the year with a 15% kind of growth. So it's happening and on both sides, the advance growth may be continue to be a little higher than the deposit growth. For deposit, we anticipate, like I said, in the 10% to 12%, and advance as closer to 15%.

Rohan Mehta:

I see, I see. Thank You for the input Sir, in the second half of this year, do you see our cost of funds stabilizing or reducing since that accelerated some pressure on our NIMs in the first half?

Salee S Nair:

In the second half, I expect this needs to stabilize. In the sense like I was mentioning earlier, the repricing of term deposits that we have substantial is it will take a while and as the repricing gets passed on because much of quite a bit of repricing on the asset side is has already been absorbed. So we expect the NIM to not be stabilized. My personal anticipation is that as we close the year, we should be looking at a NIM in the 3.85% to 3.95% kind of range because that is the kind of numbers when I extrapolate I get.

So it all depends on again, on the MSME side also, we are consciously looking at how do we price our MSME for a final so that we get a larger chunk of the market in areas that we operate. So even after accounting for that, I think that we should be in the 3.85% to 3.95% kind of NIM in the year.

Rohan Mehta:

I see. That's helpful, sir. Just a couple of more questions. Would you expect our GMRA to move a little higher since SMA 2 has also moved up to 1.02% in the coming quarter?

Salee S Nair:

SMA 2, again, it unfortunately was a function of the exercise time in when this quarter closes. You had 2 holidays that it was there. So ordinarily, I think, because there was a bit of a spike essentially on that count. Going forward, I think I don't see that happening on SMA 2 or SME, which I think we are at 3.05%. I think that's the kind of number, I think, perhaps even will be even better than, right?

It will be even better than that. So I don't anticipate some of them flipping into the NPA status going forward. We will continue to keep the NPA, my own reading of it is that it will not go beyond Rs. 550 Crores at any case. And as the expansion in advances portfolio happens here as a percentage, it should continue going down.

Rohan Mehta:

I see, I see. Sir, just one last question. If you could give some color on since some of our shares have been in litigation, any visibility on when there can be some closure on that since it's been weighing on our capitalization and valuation?

Salee S Nair:

We did have there was a, either 7th or 9th of July, I forgot which date it is, we the litigants were before the High Court and they have postponed it to October for a final closure. So sometime in October, that's likely I mean, you can never know on the legal side, how much time it will takes.

But what is happening is, see, that is not impacting the bank in any way. So that is something that we have ensured. And we have also if you look at the ED's show cause notices, and we have got expert opinion from the top one of the top law firm in the country. And they have stated that it's not going to really impact us, even the fact that the show cause notice was for the conversion or the issue of bonus shares, which involved no additional funding funds.

So I don't think that's going to impact the bank in any way. But we also like you, aware, sir, of the issues before the courts. And I'm sure and I really, really can't put a time frame into that given the kind of the time spent that is normally taken into the legal while handling the legal remedies, yes.

Rohan Mehta:

Fair enough, sir. Fair Just to close it, you spoke about MSME, sir. So since our SMA 0 and 2 both have increased, do you see any stress towards MSME? Or if you could give some visibility on that.

Salee S Nair:

Like I said, one advantage this bank has, I did mention also that while talking about the GNPA that our GNPA is current INR 549 crores is handled covered by collateral to the extent of 108%. When the GNPA gets and we are sitting on INR 370 crores of provision. So when the GNPA gets resolved, this provision will come back. So that also gives us an advantage in actually managing the MSME portfolio itself in the sense that the recourse mechanism is fairly strong.

And that, you see it moving between SMA 0, 1, 2, etc, but it never sort of flows into the GNPA. And that's something that we have been saying, and its sort of problems come back between SMA 1 and SMA 2. Some and even in the SMA space itself, it's moving around the 3%.

So I don't anticipate a stress in the MSME sector in the current portfolio. And like I said the incremental portfolio that we are looking at, the new additions we are looking at, we are you know, our LMS And LOS packages are getting implemented. To just add to that, I can also tell you that we have just built a business rule engine. We've got a top management consultant of the country to help us build the business rule engine, and that's just been completed.

Now we are in the process of validating the risk modelling that has got into it and trying to impact that into the LMS package. And hopefully, by September, I think we should be able to do that. And that should improve the quality of the incremental portfolio that the new portfolio that we are going to add from that. So the existing portfolio largely will be collaterals, we don't have much of an issue there on the stress side. And the incremental portfolio, we are putting in place systems to see that the quality is maintained.

Rohan Mehta: Alright, understood sir. That is reassuring. Thank You for taking my questions. That's all from my side. All the best.

Moderator: Thank You. The next question is from Anant Mundhra from Mytemple Capital.

Anant Mundhra: Sir, my first question is, sir, on the agri and retail side, most of our goal loans are gold loans. Is that understanding correct?

Salee S Nair: When you say mostly, your understanding is right.

Anant Mundhra: Okay, okay. And sir, so MSME, you mentioned that you are implementing the LMS. And Q3, Q4, we should start seeing a pickup. But is there any kind of a guidance that you can give us as to what number should this scale up to by the time we exit Q4?

Salee S Nair: See, this implementation that we are on, I did mention that the even without the implementation itself, we have strengthened our relationship mechanism, and we have generated a substantial pipeline. So quarter 2, we hope to focus on the implementation of the LMS. The lowest, of course, is when you look at the retail side of it.

So LMS, the loan management system, which not really looks at the appraisal side of it. It also goes beyond the disbursement into maintenance of the tech funds as well. So it's going to take some time. I think Phase 1 would be here in the first, in the second quarter. And Phase 2, we hope to have it in the second and the third. And the third quarter, we hope to complete Phase 2.

So despite some disruption that will happen on that, I anticipate the MSME growth to be about it should be in the 8% to 10% or maybe closer to 10%. That's what we anticipate. And overall, with the kind of focus that we are going to bring into the personal segments, the continued focus on the gold loan, collectively, we expect the advance's number on a year-on-year basis to ease towards the 15% mark.

Anant Mundhra: Sir, got it. So sir, we are holding on to whatever guidance that you had given last quarter, right? There's no change in any of the guidance that you had given us today.

Salee S Nair: No. No, no. The first quarter, like I said, was an aberration because of the foundation that we wanted to lay down for our growth.

Anant Mundhra: Got it. And sir, even the cost to income, so I mean, there's a presentation, I think, on Slide 26 that the cost to income has constantly been going up.

- Salee S Nair:** I did I mentioned Anant, I did mention this in my opening remarks that there is the personal sorry, performance-based incentive that we usually give to our staff, that last year was amortized. In fact, it has been amortized over the years. It has been amortized across 4 quarters over the years. And we picked up only INR 8.71 crores of that in the first quarter of last year. This year, we have decided to absorb the whole PBI, the performance-based incentive in one shot in the first quarter itself.
- That is INR41 crores plus. If you negate that impact, your cost-to-income ratio would be closer to 46. I think something that you can yourself calculate. So that was INR41 crores that we did. And that also impacted the operating profit, that impacted the net profit. Obviously, it had been much better at the amortized rate. There was a constitution that we thought of upfronting the entire expenses because this expense actually belongs to the previous year.
- Anant Mundhra:** So this I mean, then, of course, this should kind of peak in Q1 and then normalize Q2, Q3, Q4 onwards.
- Salee S Nair:** No. Q2 is once it has been yes, yes. Obviously, obviously. So once it has been absorbed in Q1, it gets sanitized off Q2, right?
- Anant Mundhra:** Yes. And sir, my final question sorry. Hello?
- Salee S Nair:** Yes. Tell me.
- Anant Mundhra:** So my final question was, sir, we are taking a lot of initiatives in terms of take initiatives and a lot of capex is going on. So I mean, most of these expenses have been capitalized or we are expensing it directly from the P&L.
- Salee S Nair:** See, the software is being capitalized. Much of what is happening is on the software side. It has been capitalized, and it has been capitalized over a 3-year period. That means 1/3 of it, 33% is actually only will impact the P&L in terms of depreciation. So it is being capitalized, and it will be extended off over a 3-year period.
- Anant Mundhra:** Got it, got it. And sir, did you give some color on the I think we were planning to set up some NRI centers and some credit management centers. And I think we had even started some pilot on that. So could you give some color on where we are on that front?
- Salee S Nair:** Two things. NRI Center, we did the initiative is on. And we have located the place, and the infrastructure is getting ready. We are also going into the market. If you might have seen it that we are looking for a lead to head the GNFC that the global NRI center, we are looking at it. We had just come out with an advertisement. We had 2 rounds, 1 round internally to get the right person. So we went out, and there was some bit of an issue on the person we sourced. So we have come out again. So that process is on, and I expect that in the second quarter that process to be completed. And we would have a global NRI center ready for action.

Meanwhile, the focus continues across the branches. We need the leaders, so that we get into the linkages not only within India, also abroad, so unless that happens. So that is continues to be a work in progress.

On the CMC, like I said, we have set up the CMC on a pilot basis in Thoothukudi. And I've also stated earlier that the leadership for the CMC, the vertical heads and the CMC heads, we have appointed across all the 12 regions and while the CMC is getting formalized in the other regions, we have told them to move into the market and start looking for MSME business.

In the pilot, which is happening in Thoothukudi region, the project is on, and that is where, like I said, the centralization of process is working well. It is resulting in some in a fairly sizable or a significant reduction in the turnaround time. But like I said, all this can fructify only once the platform is there, and that LMS platform is the one we are currently working on.

Once the LMS platform is completed in September, the Phase 1, I mentioned, and the CMC pilot in Thoothukudi is on the platform, so that we can test out the platform, and once that is completed, I think sometime in October, we will sort of move the CMCs into the other regions as well. So while the platform is moved, the infra is already being built, like I said. The leadership has already been posted for the kind of take-off that we are hoping to happen in the third quarter.

Anant Mundhra: Alright Sir. Thank You for the details

Moderator: Thank You, The next question is from Jay Prakash Kumar from Korman Capital.

Jay Prakash Kumar: It's a question on SMA account. So if you can elaborate on that?

Salee S Nair: SMA account?

Jay Prakash Kumar: Yes.

Salee S Nair: Well, what specific are we looking at in SMA?

Jay Prakash Kumar: What is this definition of SMA account? Is it due for some days? Or because restructured, you have reported separately. So I just wanted to understand what is SMA?

Salee S Nair: Are you looking at the definition of SMA?

Jay Prakash Kumar: Yes, yes.

Salee S Nair: SMA is essentially per 1 day after 90 days. After that, it becomes NPA. And within that 90-day structure, 90-day period, you have up to 30 days of SMA 0, 31 to 60 days of SMA 2 and 60 to 89 days or 90 days of SMA 3 sorry, SMA 2. SMA 0, 1 and 2, 30 days, 30 days, 30 days, right? And 90 days, it becomes NPA. So these are what you're seeing is all in the 90-day bucket.

Jay Prakash Kumar: Got it, got it. And sir, you mentioned in the last quarter, there is some extra capex you are doing in terms of automation and maybe some system implementations. So do you expect this full year

to continue that increased capex or there will be some quarter like and in another quarter not have that?

Salee S Nair:

On the IT side, it would continue. Like I said, we have contracted several packages, of which some of them have already been implemented in this quarter. On July 7, the customer experience package that we have taken from one of the leading software companies in the world i.e. oracle. So that has been implemented in the first fortnight of July.

So that's aimed at giving the leeway for improving the product per customer and the counters in the branches, giving a 360-degree of the customers, so that the customer interaction relationship have with a clear impact on CASA happens. So that is on the CX side. We have implemented the VMS package, which is the vendor management system. We spent about INR1,200 crores for running the bank. So that package has also been implemented in July, this month.

And several others are in the offing. I did mention about the LMS. So the Phase I is on. LOS also is on. That is LOS is looking at the retail. LMS is looking at the MSME. That's all, and I think the Phase I is likely to be completed in September.

And apart from that, we are also looking at the Internet banking. We are completely revamping our Internet banking package. Whatever services is available across the counter, we want to make it available through the Internet banking package. So EdgeVerve, which is an Infosys company, we have contracted them for a complete revamp, which should be ready by December. And from January 1, we hope to have it fully launched for the benefit of our customers. So that's the other package on.

And within the branches, it start to improve the productivity and reduce the manual way of handling it. We have brought in the business process managements. And I think several projects are underway. I think some of them have already been done. And we have already started getting the benefit of it. I think going forward, I think we hope significant improvement in productivity will happen there.

Apart from that, we are also looking at the old record, cartonizing and detaching the old records and moving it out, so that we revamp some of our branches from a customer's perspective. So a lot of initiatives are being taken. I think that's the first set of initiatives I did mention across whenever I have calls with the analyst in the last 2, 3 quarters and that's something on, and we will consolidate this for the benefit of our business.

We expect the second half to have some impact of it, and that is there that my confidence comes from the fact that I can increase the deposit will certainly cross the 10% year-on-year and advances will reach closer to 15%. Confidence comes from the fact that some of these initiatives are going to give me a leg up in the second half.

Jay Prakash Kumar:

Thank You

Salee S Nair:

Yes

- Moderator:** The next question is from Sarthak from Bullseye.
- Moderator:** There seems to be no response from Sarthak. We move to the next question. Next question is from Darshan Deora from Indvest Group.
- Darshan Deora:** Yes, Thank You for the opportunity, Yes, Firstly, congratulations with a reasonably good set of numbers, especially adjusting for the Q1 FY '25 figure as well as the accelerated provisioning on the performance incentive, which you've taken in this quarter. My question is for regarding the loan mix. So currently, what percentage of our loan book would be fixed in nature versus linked to EBLR versus MCLR?
- Salee S Nair:** EBLR, MCLR is about 50% and 50%. 50% EBLR, 50% would be MCLR.
- Darshan Deora:** So in terms of fixed yes. In terms of fixed, is it 0, fixed book is 0?
- Salee S Nair:** Fixed book are doing what is the extent of fixed book? I think it is negligible, right? I'll get you that number, but it is almost entirely is floating split between MCLR book and EBLR book. Like I said, the INR45,000 crores is evenly split between the 2. Almost even, I think, but fixed book I think is very, very little. Not really good impact.
- Darshan Deora:** Got it. And you said that the average the deposits will take about maybe overall like maybe a year, 1.5 years to reprice. What about our loan book? Like what is the tenure of our loan book?
- Salee S Nair:** The average maturity, I think, I will have to get you that number because you have that number this I'll give you that number, Darshan.
- Darshan Deora:** Okay. All right. Got it. And ...
- Salee S Nair:** You need to get the average maturity of the term loan. I think that's what you're looking for, right?
- Darshan Deora:** Yes, yes. I mean, it would get repriced anyway. I'm assuming it will get repriced either way.
- Salee S Nair:** That's why we look at the term deposits. It's the 6%, as I said, in the 1- to 2-year bucket. Another 20% in the 6:1. So 86% is in that. But it takes a bit of time. I think that's where the pass-on nature of your repo cut impacts.
- Darshan Deora:** Got it. And just in terms of the MSME space, you did mention that in terms of your loan book, you'd all see stress because of the collateral that you have in place, vis-a-vis the loan amounts the outstanding loan amount. But generally speaking, you're seeing a slowdown in cash flows or in growth of the MSME sector.
- Salee S Nair:** In the MSME, the uniqueness of this bank is that the kind of loyal base that we have been having. We are trying to expand beyond that, ensure that and the collateral factor that is build into the whole mechanism of credit delivery ensures that even if it gets to a SMA, it sort of toggles back into the standard. It keeps moving up and down.

On the so that's not much of a worry for us. Our worry is the kind of incremental. When we renew a contract of a new MSME business, how do we maintain the same level of quality? Obviously, it can't be collateralized to the extent that the existing book is. So to that extent, that is one of the reasons why we are investing heavily in the VRP and the kind of LMS packages and the linkages that with outside world in terms of data collection, so that we can cleanse the data for quality appraisal. That's something that we will take care.

But on the cash flow side, as of now, we have not seen any kind of a lowering of it or an area of concern from a cash flow perspective. I think that continues. And let me also give you that we are putting in place a standard monitoring mechanism to study the cash flow from that perspective. That's the other one of the other projects that we did talk about, that is coming on-stream maybe in the third or the fourth quarter. But as of now, we have not seen much of a worry there.

Moderator: Thank You very much. The next question is from Santosh from SKK HUF.

Santosh: Okay. Great. Sir, I have 2 questions. One is about the you spoke about NIM in the forthcoming quarter to be something like 3.85% -3.95%. So what gives of this confidence. So what gives us this confidence in the rate reducing scenario when the rate reduction environment and expedient our needs are much lower than that? What gives us this confidence?

Salee S Nair: Yes. See, what we are also trying to do is on the MSME side, we have actually dropped our rates to align assets to the market, so that to update any takeover that may happen. And on the see, we have a sizable gold loan portfolio that is growing, right? And there, we are introducing in fact, if I tell you, we are introducing 18 products cut into separate segments in the gold loan portfolio. And this is one portfolio that has been giving us the kind of support and for the profits earlier, and we will continue focusing on that.

And there, the yield, we anticipated it to be a little higher than what we are getting earlier because the new products particularly aimed at the consumption segment will carry a higher rate of interest. And I noticed that, that segment is, in fact, growing. So that will help us to whether the policy cuts that we are seeing. That is where the confidence comes that we can, in fact, look at 3.85% up.

Management: And we are sure about the demand in the gold room.

Salee S Nair: I'm telling you from the kind of growth I'm seeing it across my branches.

Santosh: Okay, okay. Second question is about the separate disclosures from gold loan. So what's happening is that when you see a presentation, we just see a disclosure for RAMs sector, retail, agriculture and MSME. But there is no separate mention on the gold loan amount that's outstanding. So any reason for that? Because many other banks do that, and they separately disclose gold loan. And then we can understand...

- Salee S Nair:** Yes. I think that's something we can do it next quarter onwards, so that you get a better insight anyway. There is no reason. There's no particular reason. This is done and it is done. So if there is a demand, we will certainly cater to it. We'll have that done for next quarters onwards.
- Santosh:** Okay. That's great. So just now just for the sake of information, what could percentage of total RAM portfolio be?
- Salee S Nair:** It's a little over 40%, a little over 40%.
- Santosh:** Great Sir. Thank you so much and wish you all success.
- Salee S Nair:** Thank You
- Moderator:** We'll take that as the last question. I would now like to hand the conference back to the management team for closing comments.
- Salee S Nair:** Yes. Thank you, Reyo. I think, like I said earlier, this first quarter is I look at it more as a stabilizing quarter, a quarter that is laying the foundation. And I think the numbers that have been delivered, particularly when I look at the deposits, I think I'm satisfied that my branches are now beginning to deliver, particularly when I look at the fact that the deposit growth has the pace of growth has doubled.
- The profit space is reasonably good, particularly when I look at the fact that the onetime expenditure I have appended it. And again, on the NIM, I think the NIM, I don't think we expect the NIM to go down from where it is today. And so the growth around the NIM is likely to push up and will generate the profit as it comes in the next few quarters.
- There are initiatives that are being taken. I hope will result in, and I'm sure it will result in the number the growth numbers moving up. I did mention that we expect the deposits to grow in excess of 10% and the advances closer to 15%.
- So I hope my words will be validated by the performance of the next quarter and the quarters that follow. Thank you, thank you all for participating in this analyst meet. And if there are any questions separately also, you can take us with us, and we'll be happy to share it. Thank you.
- Moderator:** On behalf of Tamilnad Mercantile Bank Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.