Pick of the Week

Tamilnad Mercantile Bank

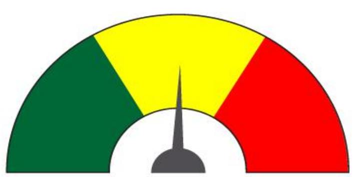
December 1, 2025

Tamilnad Mercantile Bank

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
BFSI – Pvt. Bank	Rs 507	Buy in Rs 495-520 band & add on dips in Rs 450-460 band	Rs 565	Rs 610	2-3 quarters

HDFC Scrip Code	TMBLTD
BSE Code	543596
NSE Code	TMB
Bloomberg	TMB IN
CMP Nov 28, 2025	507.3
Equity Capital (Rs Cr)	158.4
Face Value (Rs)	10
Equity Share O/S (Cr)	15.8
Market Cap (Rs Cr)	8032
Adj. Book Value (Rs)	588.7
Avg. 52 Wk Volumes	108,500
52 Week High	527.0
52 Week Low	401.0

Share holding Pattern % (Sep 2025)	
Promoters	0.0
Institutions	7.1
Non Institutions	92.9
Total	100.0



* Refer at the end for explanation on Risk Ratings

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Our Take:

With an illustrious history of over 100 years, Tamilnad Mercantile Bank is one of the oldest private sector banks in the country. They are headquartered in Tamil Nadu and have a strong presence in the state, accounting for ~75% of the Bank's total branches. Tamil Nadu has shown strong economic growth, achieving a real growth rate of 9.69% in FY 2024-25, the highest in India. This strong growth is likely to percolate to the MSME and retail sectors, driving strong growth for the bank. TMB has reported strong asset quality metrics with NPAs at decade low levels. Slippages are expected to remain under control and it carries sufficient provisioning to meet the RBI's ECL framework requirement. The bank is making significant investments in technology and diversifying geographically

Management reaffirmed their ability to sustain and accelerate profit growth, with normalised credit costs (0.15% presently), cost/income ratio guide at ≤45, and expectation of >17% profit growth in FY27. Existing provision buffers of Rs 250cr for COVID/contingencies are adequate to absorb new RBI ECL norms (from 1 April 2027); no impact expected on profitability or capital.

Valuation & Recommendation:

Despite its steady performance in recent times and expected strong growth, the bank is trading at an inexpensive valuation of 0.65x H1FY28E ABV, a valuation that won't last once the market recognises the bank's true potential. We believe investors can buy the stock in the band of Rs 495-520 and add on dips in Rs 450-460 band (0.6x Sep'27E ABV) for the base case fair value of Rs 565 (0.75x FY27E ABV) and the bull case fair value of Rs 610 (0.8x Sep'27E ABV) over the next 2-3 quarters.

Financial Summary:

Particulars (Rs cr)	Q2FY26	Q2FY25	YoY (%)	Q1FY25	QoQ (%)	FY25	FY26E	FY27E	FY28E
NII	597	596	*0.2*	580	*3.0*	2301	2548	2948	3376
PPoP	452	465	*-2.7*	412	*9.7*	1746	1931	2293	2681
PAT	318	303	*4.7*	305	*4.1*	1183	1360	1589	1814
EPS (Rs)	20.1	19.1	*4.7*	19.3	*4.1*	74.7	85.9	100.3	114.6
RoAE (%)						14.0	14.2	14.7	14.8
RoAA (%)						1.8	1.9	2.0	2.0
ABV (Rs)						558.8	632.7	716.6	810.2
P/ABV (x)						0.9	0.8	0.7	0.6

Q2FY26 Result Update

TMB reported subdued Q2FY26 results, even though loan book growth remained robust as yields compressed while cost of deposit remained stable. NII (Net Interest Income) increased 0.2% YoY, while total income rose 3.6% YoY. Operating profit fell 2.7% on account of 8.5% deline in non-interest income. Cost-to-income ratio declined to 43.8%, nearly 550 bps lower QoQ. Net Profit for the quarter rose 4.7% YoY and 4.1% QoQ to Rs 318cr, supported by consistent income growth and stable asset quality.

Total Business grew 11.4% YoY to Rs 102,351cr, reflecting the highest growth since listing. Deposit growth accelerated to 12.3% YoY, reversing previous underperformance, while advances grew 10.3% YoY and 4% QoQ. CASA saw a revival, growing 9.3% YoY and increasing share by 58 bps QoQ.

Asset Quality remained amongst the best in the industry, with GNPA at 1.01% (the lowest in 10 years) and NNPA at 0.26%. Provision coverage ratio (PCR) improved to 74.4% (95.3% with technical write-off). Slippages were well under control; SMA ratios continue to trend down, and the overall stressed assets ratio is now at 1.59%. Unsecured exposure is minimal at 0.3% of advances, with negligible NPA. The US tariff impact is limited to just 17.5% of the 1.05% of export credit, implying very low risk.

ROA came in at 1.85% and ROE at 13.8%, both showing improvement.

Operational Initiatives: 22 new branches opened in H1, with the footprint expected to expand further across India. Digital capabilities are enhanced, with a significant IT and modernisation budget (Rs 250cr in FY26). Channel migration to digital platforms accelerated, supporting growth in the retail and MSME (RAM) portfolio.

Guidance: Management expects FY26 credit growth of 14-15% and deposit growth of 12-13%, with CASA also guided at ~12%. Recent initiatives in MSME, retail, and agri lending are showing sustained momentum, not one-off. The focus remains on expanding non-Tamil Nadu business over the medium term, aided by targeted branch openings and local hiring. NIM is expected to stabilise above 3.85% as deposits reprice into lower rate buckets. Margin pressure seen earlier is believed to be behind, with repricing benefits accruing over the next 2 quarters.

Key Triggers

Double digit growth for Tamil Nadu

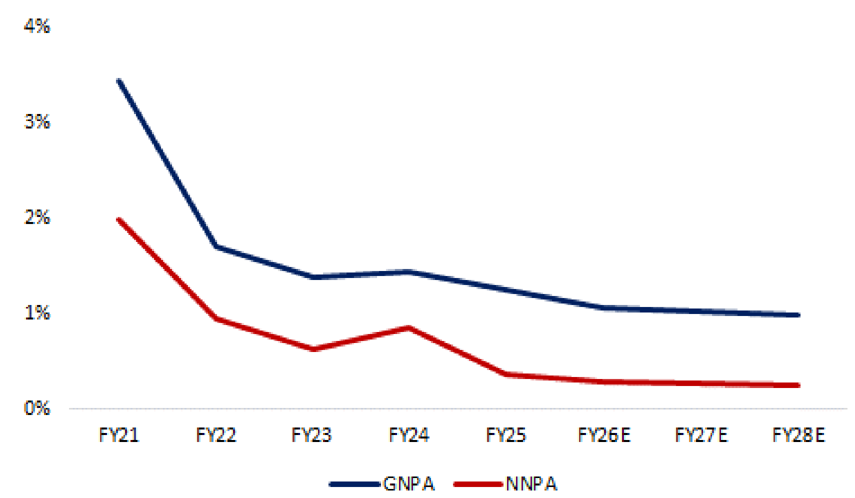
Tamil Nadu has shown strong economic growth, achieving a real growth rate of 9.69% in FY 2024-25, the highest in India. This performance is driven by strong manufacturing, services, and export sectors, attracting significant investments in new technologies like electric vehicles and semiconductors. The state's nominal growth rate for the same period was 14.02%, also the highest in the country. Tamil Nadu's manufacturing stands out compared to peer benchmarks. While India's manufacturing growth was just 4.5% in 2024-25, Tamil Nadu recorded 14.7%. Similarly, construction growth in Tamil Nadu (11.56%) also outpaced the national average of 9.4%

Tamil Nadu continues to assert its status as an industrial powerhouse, boasting one of India's most developed and diverse industrial ecosystems. The state is also a leader in the MSME sector, with more than 25 lakh Udyam-registered micro, small and medium enterprises, placing it second in the country. The Indian Government has launched various schemes and incentives to promote growth of MSMEs. The strong growth is likely to attract further investments in the state benefitting TMB which has ~75% of its branches in Tamil Nadu.

Sharp reduction in stressed assets

Asset quality of the bank has improved significantly with TMB reporting 10-year low NPA levels in FY25. It further enhanced in H1FY26 as slippages remained under control. The bank reported GNPA/NNPA of 1.01%/0.26% in Q2FY26, which is among the best in the industry. The

Asset quality trend



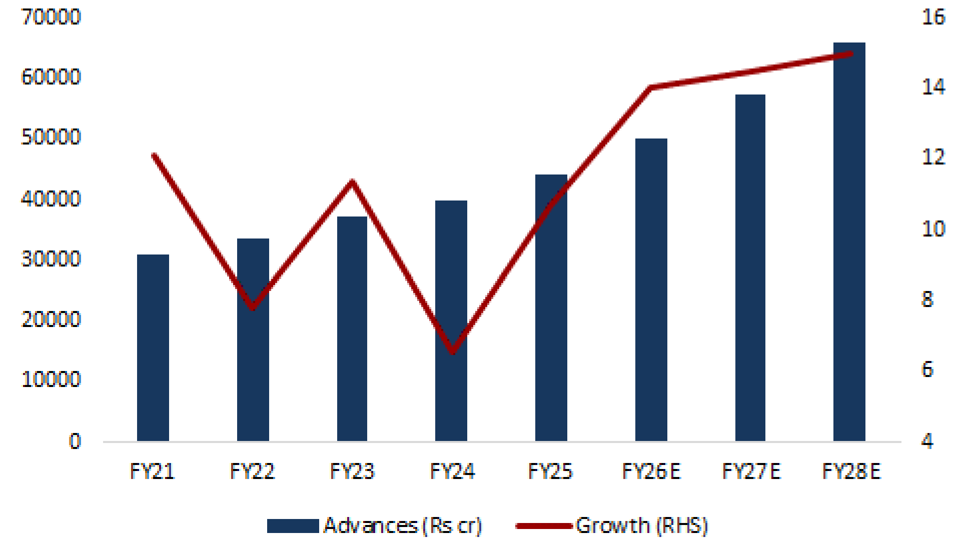
(Source: Company, HDFCsec)

PCR without technical write-offs increased to 74.4% from 66.4%, and the total SMA-to-gross advances ratio reduced to 2.67% from 4.16% YoY, a decline of 149bps. TMB carries additional contingency provision of Rs 250cr which it would utilize to offset the impact of additional ECL requirement norms kicking in from FY28. As the momentum picks up, the absolute NPA levels are likely to increase in FY27. However, the management expects GNPA to be contained within 1% and credit costs in the range of 0.25%-0.5%.

Robust growth projections in the coming years

TMB has set its sights on achieving a total business of Rs 1.40 lakh crore by FY27, coupled with a 2% return on assets (ROA). The bank plans to expand its branch network to over 700 branches, signalling a strong focus on physical presence and customer accessibility. However, we believe the target for total business growth is aggressive and would be achieved by FY28. For FY26 the bank plans to add 50-55 branches and is targeting advances growth of 14-15%.

Credit growth to pick up



(Source: Company, HDFCsec)

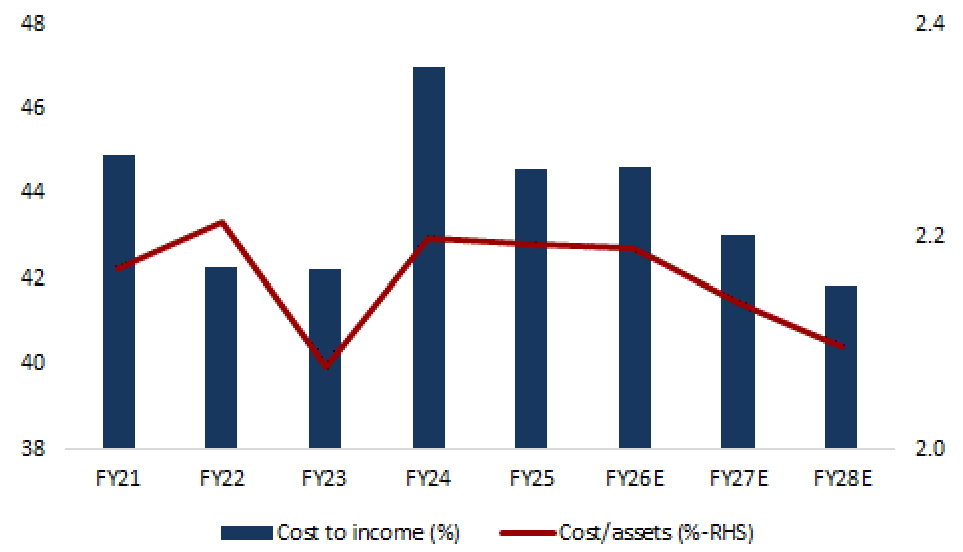
Geographic diversification to reduce risk

TMB plans to expand aggressively outside its home state to reduce the risk of geographic concentration. It has added 22 branches in H1FY26 and proposes to add 36 branches in H2FY26, 12 of which will be outside Tamil Nadu. Over the next three years its share of non-TN branches is expected to increase to 35% from ~25% currently. To support this geographic diversification, the bank is also focusing on building a local talent base in other states.

Increased IT spend to enhance productivity

TMB has significantly increased its technology budget to Rs 250cr for FY26, a major leap from Rs 152cr the previous year. This substantial investment is a key part of the bank's broader modernisation and national expansion strategy. Many of the bank's surrounding systems were manual despite having an updated core banking solution. The investment is intended to bridge this gap and fully modernise operations. These investments are expected to improve productivity significantly and enhance profitability of the bank. We expect the cost-income ratio to improve 270bps over FY25-FY28 to 42.8%.

Increased productivity and efficiency to drive costs lower



(Source: Company, HDFCsec)

Risks & Concerns

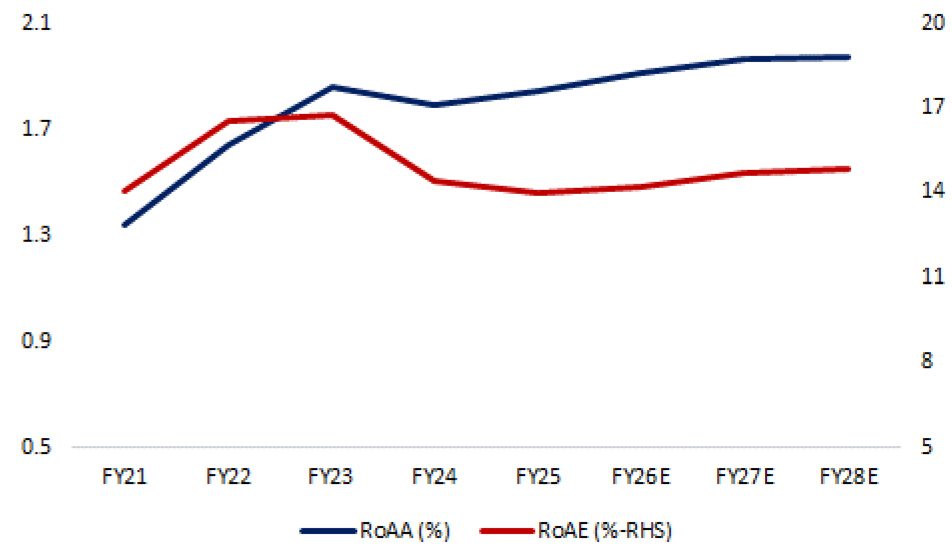
- The bank is largely concentrated is the state of Tamil Nadu. However, the bank plans to gradually diversify its operations by opening new branches outside Tamil Nadu, and its ability to diversify its presence is a key monitorable.
- Asset quality has improved over the past few years and any deterioration in the asset quality could negatively impact the bank.
- Bank could take time to build its expertise outside its home state which could result in elevated cost-income ratio.
- NIMs have remained robust despite rate cuts due to deposit repricng. However, further rate cuts could have negative impact on NIMs.
- Any unfavourable change in rules and regulatory policies can hurt earnings outlook of the Bank.

Company Background

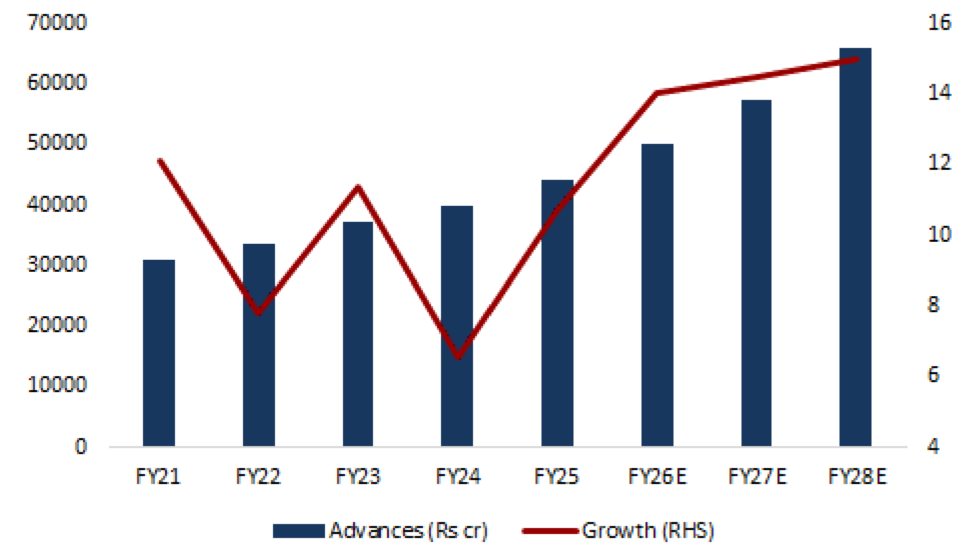
TMB is one of the oldest and leading old private sector banks in India with a history of more than 100 years. Incorporated as 'Nadar Bank Limited' in 1921 its name was changed to 'Tamilnad Mercantile Bank Limited' in the year 1962 to appeal to a broader demographic. The bank has had a vision of extending banking service to common people of rural areas, hitherto neglected, with all humility. The bank dotted more and more non-metro centers with its branches thereby extending its service area in range, variety and magnitude. Out of 600 branches, 510 branches are located at rural, semi urban & urban (non-metro) centers.

As of FY25, TMB had total business of ~Rs 98000cr with a focus on RAM advances, which contribute 93% of total advances. The bank has been verticalised into four segments – MSME, gold loans, retail (housing and car loans), and trade finance – each created with clear budgetary targets and dedicated resources to drive growth. The lender posted its highest yearly net profit of Rs 1,183 crore in FY25, while gross non-performing assets (GNPA) declined to a 10-year low of 1.25%.

Return Ratios



Loan Book



(Source: Company, HDFCsec)

Tamilnad Mercantile Bank

Financials

Income Statement

(Rs cr)	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	4848	5291	5759	6485	7330
Interest Expenses	2697	2990	3210	3537	3953
Net Interest Income	**2151**	**2301**	**2548**	**2948**	**3376**
Non interest income	645	850	941	1076	1234
Operating Income	**2796**	**3151**	**3490**	**4024**	**4611**
Operating Expenses	1314	1406	1558	1731	1930
PPoP	1482	1746	1931	2293	2681
Prov & Cont	88	171	118	188	278
Profit Before Tax	1394	1575	1814	2104	2403
Tax	322	392	453	516	589
PAT	**1072**	**1183**	**1360**	**1589**	**1814**

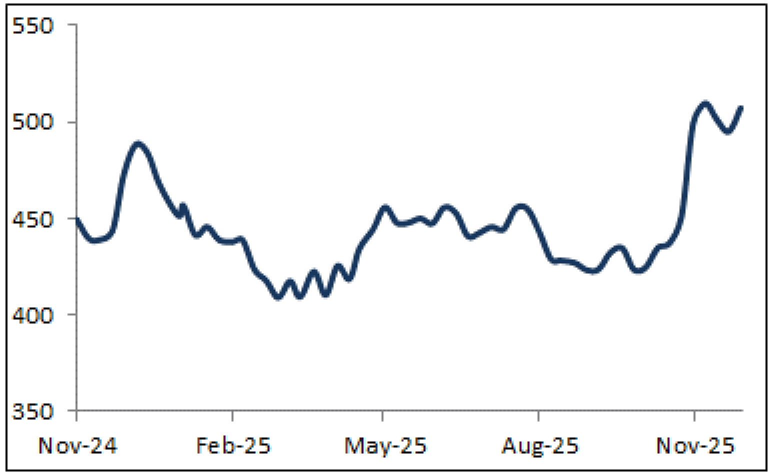
Balance Sheet

(Rs cr)	FY24	FY25	FY26E	FY27E	FY28E
Eq. Share Capital	158	158	158	158	158
Reserves & Surplus	7763	8850	10005	11340	12838
Shareholder funds	**7921**	**9009**	**10163**	**11498**	**12996**
Deposits	49515	53689	60662	68734	78335
Borrowings	1301	500	1254	1722	1981
Other Liab & Prov.	2912	3362	3796	4071	4842
SOURCES OF FUNDS	**61650**	**66560**	**75875**	**86026**	**98154**
Cash and cash equivalents	3568	4408	4964	5569	6272
Investments	15263	15101	17549	19635	22184
Advances	39734	43984	50141	57412	66024
Fixed assets	271	284	299	314	329
Other assets	2814	2782	2921	3097	3345
Total assets	**61650**	**66560**	**75875**	**86026**	**98154**

Ratio Analysis

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Return Ratios (%)					
Yield on adv	12.6	12.6	12.2	12.1	11.9
Cost of funds	5.4	5.7	5.5	5.3	5.2
NIM	3.9	3.9	3.9	4.0	4.0
RoAE	14.4	14.0	14.2	14.7	14.8
RoAA	1.8	1.8	1.9	2.0	2.0
Asset Quality Ratios (%)					
GNPA	1.4	1.3	1.0	1.0	1.0
NNPA	0.8	0.4	0.3	0.3	0.3
PCR	41.6	71.1	72.7	73.9	73.9
Growth Ratios (%)					
Advances	6.6	10.7	14.0	14.5	15.0
Deposits	3.6	8.3	12.7	13.0	13.7
NII	2.7	7.0	10.8	15.7	14.5
PPP	-5.8	17.8	10.6	18.7	16.9
PAT	4.2	10.3	15.0	16.8	14.2
Valuation Ratios					
EPS (Rs)	67.7	74.7	85.9	100.3	114.6
P/E (x)	7.5	6.8	5.9	5.1	4.4
Adj. BVPS (Rs)	479.0	558.8	632.7	716.6	810.2
P/ABV (x)	1.1	0.9	0.8	0.7	0.6
Dividend per share (Rs)	10.0	11.0	13.0	16.0	20.0
Dividend Yield (%)	2.0	2.2	2.6	3.2	3.9
Other Ratios (%)					
Cost-Income	47.0	44.6	44.7	43.0	41.9
Cost/Assets	2.2	2.2	2.2	2.1	2.1

Price chart



HDFC Sec Prime Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Rating Criteria

Buy - > 15%+ return potential
Add - +5% to +15% return potential
Reduce - -10% to +5% return potential
Sell - >10% downside return potential

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